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On the cover
When he visits China this weekend as part of his Asian tour, George Bush should treat the country as an opportunity, not just a threat: leader

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Politics this week

Nov 17th 2005
From The Economist print edition

Bush goes to Asia

Reuters

George Bush toured **Asia**, starting in Japan and moving on to Seoul in South Korea for a regional summit before heading, at the end of the week, to China. In Seoul, Mr Bush and South Korea's president called for a formal peace treaty between the Koreans, but said the North would not be allowed to keep nuclear weapons. See article

China said it would officially commemorate the 90th anniversary of the birth of Hu Yaobang, who was purged in 1987. He remained popular with reformers and students, and his death in April 1989 led to the Tiananmen protests.

Condi bangs some heads

Condoleezza Rice, the American secretary of state, arranged a deal between Israel and the Palestinian Authority whereby Palestinians living in the **Gaza strip** would have easier access to Egypt and to the West Bank. See article

Israel, meanwhile, seemed to be heading for early elections, in February or March next year. Ariel Sharon, the prime minister, said this would prevent 2006 becoming “a lost year” for diplomacy. See article

Two scandals in **Iraq.** The Americans discovered 173 starving insurgent suspects in an interior-ministry building in Baghdad, suggesting a pattern of abuse by America's Iraqi allies. And an Italian TV film suggested that white phosphorus, used by American troops last year to light up the night as they attacked the rebel town of Fallujah, may also have been used as an incendiary weapon against insurgents; the film suggests the chemical killed civilians too. See article

In an apparent effort to break the deadlock over **Iran's** nuclear programme, which the European Union and America have been trying to block, Russia suggested that Iran might be allowed to continue converting natural uranium into gas at its restarted conversion plant at Isfahan, but then ship it to Russia for enrichment. See article

EPA

Preliminary results after the first of three rounds of voting in **Egypt's** general election suggest that the Muslim Brotherhood, which is not legally recognised but ran candidates as independents, might win more than a fifth of parliament's seats—a big advance. See article

Uganda's main opposition leader, Kizza Besigye, was arrested on

charges of treason and rape three weeks after returning from exile but failed to appear in court for a bail hearing. The day before, at least one man was shot dead in riots by supporters protesting against his prosecution.

Hissène Habré, a former leader of **Chad**, was arrested in Senegal following an extradition request by Belgium, which has charged him with crimes against humanity under its "universal jurisdiction" law, which lets it prosecute human-rights violations wherever they are committed.

Under a cloud

Brazil's finance minister, Antonio Palocci, went before a Senate committee to rebut claims of his involvement in a party-financing scandal and to defend his tight economic policy, which have come under fire from colleagues. See article

Canada may be heading for a January election. Opposition parties laid plans to table a motion of no confidence in Paul Martin's minority Liberal government this month. They hope to capitalise on a report into government sleaze—but risk intruding on Canadians' Christmas holidays. See article

Venezuela and **Mexico** recalled their ambassadors after a war of words between their presidents. Hugo Chávez accused Vicente Fox of being a "puppy" of imperialism for defending free trade. Mexican officials said Mr Chávez had insulted their country; they demanded, but did not get, an apology. See article

Colombia's Constitutional Court approved an electoral law setting out conditions under which an incumbent president can stand for re-election. That removed the last potential legal obstacle to President Álvaro Uribe's quest for a second term.

The CIA, which spent many years trying to murder **Fidel Castro**, has concluded that the Cuban leader, who is 79, has Parkinson's disease. Cuban officials made no comment.

Reassertion of power

In a rebuff to the White House, the Senate passed a **defence bill** that includes an amendment giving suspected terrorist detainees some access to the courts and also establishes guidelines for the interrogation of prisoners. An amendment calling for a timetable for withdrawal from Iraq was defeated, but a Republican one calling for a plan to end the mission passed.

Meanwhile, **Dick Cheney** became the latest senior Republican to criticise the critics of the White House's handling of intelligence leading to the war. He said that the accusation the administration had lied was "one of the most dishonest and reprehensible charges ever aired" in Washington. See article

Enrolment began for the new **Medicare** prescription-drug benefit, which comes into effect on January 1st. Critics say the programme is too costly and confusing (most states are offering over 40 different types of plan), but Mr Bush is touting it as the biggest advance in government health care since the establishment of Medicare in the 1960s. See article

A presidency's dying embers

AP

France calmed down after three weeks of riots in many of its deprived suburbs. Jacques Chirac spoke on television of the country's "profound malaise". The government extended the state of emergency it imposed last week, but also promised to improve life in the suburbs. See article

The "grand coalition" partners in **Germany** agreed on a programme that will enable Angela Merkel, leader of the Christian Democrats, to become chancellor on November 22nd. The programme's centrepiece is a cut in the budget deficit, which many economists worry might damage the economy. See article

Russia's president, Vladimir Putin, reshuffled his government, promoting both Dmitry Medvedev, head of the presidential administration, and Sergei Ivanov, the defence minister. The two men are now seen as the likeliest successors to Mr Putin after his term of office ends in 2008. See article

The European Court of Auditors refused, for the 11th consecutive year, to sign off the accounts for the **European Union budget** in 2005, citing irregularities and possible fraud in farm spending and regional aid. The European Commission said matters had improved since last year.

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Business this week

Nov 17th 2005
From The Economist print edition

Auto discounts

After reporting dismal sales figures for October and seeing its market share in the United States and Europe slip even further, **General Motors** began a new consumer discount plan on many of its models. **Ford**, which faces similar problems, also announced a scheme. Both carmakers (and DaimlerChrysler) offered huge discounts during the summer that increased sales but hurt profit margins. See article

Peter Drucker, hailed as the world's most important thinker on management and the role of corporations, died in California on November 11th, at the age of 95. Mr Drucker, who left Austria in his youth, was given the epithets of “guru” and “sage”, though he thought of himself chiefly as a writer and teacher. See article

Koch Industries, a privately held conglomerate, agreed to buy **Georgia-Pacific**, a paper and packaging company, for $13.2 billion (including debt, the deal is worth $21 billion). The acquisition will create America's biggest private company by revenues. See article

Johnson & Johnson and **Guidant** patched up their recent differences and agreed to move ahead with their merger. J&J will now pay $21.5 billion for the maker of medical devices, $4 billion less than was agreed last December. Since then, Guidant has seen a series of product recalls and related investigations.

Hold the front page

Under pressure from unhappy shareholders, **Knight Ridder** confirmed it was seeking advice on “strategic alternatives”, such as a possible sale of the company. The publisher of 32 American city newspapers, including the *Miami Herald*, is suffering, like other newspaper publishers, a decrease in both circulation and advertising revenue. See article

Google unveiled a prototype of Google Base, its new search facility that allows users to post their own information. Analysts viewed the move both as a foray into the lucrative classified advertising market and as a potential challenge to online auctioneers, such as eBay. See article

Vodafone's share price fell by almost 11% in London on November 15th after the mobile-phone group said that fierce competition in Europe and heavy investment in its struggling Japanese unit could hurt profit margins over the next 18 months.

Telstra unveiled a A$10 billion ($7.3 billion) five-year strategic review that includes up to 12,000 job cuts. Australia's largest telecoms firm has seen revenue decline in its fixed-line services and is attempting to cut costs ahead of the government's sale of its 52% stake.

Who will, eventually, pay?

America's **Pension Benefit Guaranty Corporation** reported a deficit of $22.8 billion for the year ending September 30th. However, the federal agency, which insures private pensions, said its outlook had worsened due to recent “events” and now estimates it is exposed to $108 billion in pension losses. The Senate attempted to address the deficit by passing a bill that, among other things, requires employers to pay higher premiums to the agency.

The **New York Stock Exchange** reached a settlement with a group of dissident “seat holders” (owners) who claimed that not enough information was provided to members about an impending merger with **Archipelago Holdings**, an electronic exchange. Both sides agreed to a review of the deal—which will turn the NYSE into a public company—ahead of a vote by members on December 6th. See article

Germany's **Commerzbank** said it would buy stakes in **Eurohypo**, Europe's biggest mortgage bank, from its neighbours, Deutsche Bank and Dresdner Bank, for a total of *euro*4.6 billion ($5.6 billion). The deal will give Commerzbank 98% of Eurohypo's shares. See article

A fresh round of **“open skies”** talks aimed at liberalising the transatlantic market began in Washington, DC. The United States and the European Union have spent over a decade seeking an agreement that provides airlines with unrestricted access between the two continents.

Copper prices reached record highs amid market speculation that the Chinese government will struggle to cover a short position of up to 200,000 tonnes apparently amassed by a Chinese trader. It seems that Liu Qibing bet that prices would fall, but they have actually risen by more than 30% this year. See article

Mixed results

The **euro area's** GDP grew by 0.6% in the third quarter compared with the previous quarter. The figure was driven by a surge in German exports, but the data revealed a patchy economic recovery in the currency bloc. The European Commission forecast that growth would accelerate in 2006 and 2007. But some countries' budget deficits will stay above EU limits. See article

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China and the West

Meeting the superpower

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George Bush should treat China as an opportunity, not just a threat

IT IS never easy to deal with an emerging superpower. China may not justify that moniker quite yet, and perhaps it never will. But its rapid economic growth, its huge population, its demand for resources and its energetic diplomacy are posing delicate questions for politicians around the globe. China may not be another Evil Empire, but it is still a repressive one-party state: can it be changed, or must it merely be made room for? And will what China has termed its “peaceful rise” really be that, or could it become more confrontational?

This debate has long obsessed China's neighbours, notably Taiwan. As Mr Bush will discover on his Asian tour, loyal allies of the United States such as Japan, South Korea and Australia already feel the magnetic force of a new geopolitical pole (see article). But the dragon's breath is being felt farther afield. China is now the fastest-growing investor in Africa. Its indifference to human rights has given its companies an edge in places as disparate as Uzbekistan, Zimbabwe, Sudan and Iran.

Yet the country most able to influence China is still that other great power in Asia: the United States. This weekend, Mr Bush, reeling from setbacks at home, arrives in Beijing under pressure from Congress to “be tough” with his host, Hu Jintao. But he needs to be tough about the right things—and many voices at home are suggesting precisely the wrong ones.

The China-bashers gather force

Fear of China runs deep in America. From the left, trade unions and Democrats howl about the outsourcing of jobs to China. With America's bilateral trade deficit with China set to soar above $200 billion this year, many industries have joined the clamour, hoping for hand-outs and protection. And the China-bashers are making progress.

In July, American nagging helped persuade the Chinese to move the yuan from its dollar peg and peg it to a mixed basket of currencies, bringing a 2% revaluation in the process (though that has not stopped a Democratic senator, Charles Schumer, from threatening a 27.5% tariff if the yuan does not rise more). In August, the state-owned China National Offshore Oil Corporation (CNOOC) gave up trying to buy Unocal, a mid-sized American oil firm, after the House of Representatives voted by 398-15 to ask Mr Bush to review the bid. And last week, the Chinese agreed to a textiles deal that allows America to extend its quotas on Chinese imports till 2008.

All this might be dismissed as a re-run of the ill-judged Japanophobia of the 1980s. But whereas that was based on economic anxieties alone, China-bashing enjoys a much broader constituency: moralistic neo-conservatives, who have objected to America's China policy since Nixon began “appeasement” in the 1970s; defence types, who fear China's arms build-up; fundamentalist Christians, angry about China's repressively atheist ways. It is easy to see why Mr Bush will be under pressure to look stern in the photo-calls in Beijing. He should nonetheless hold his nerve against the knee-jerk Sinophobes, especially in the case of trade.

Calls for anti-dumping duties, protection against the undervalued yuan and so on all start from the politically convenient but economically illiterate idea that imports are bad and exports are good. Yet even by that twisted logic, it is an error to blame America's current-account deficit on China. Most of the increase in America's trade deficit over the past decade has come from other countries; and America's imbalance has far more to do with a shortage of American savings than imports from China. That does not mean that Mr Bush should not be tough on some subjects. It is right to restrict arms sales to a regime that abuses the human rights of its own citizens, to press China to open its market further, and to clamp down on software piracy. But China should not be made into a scapegoat for all the home-made ills of the American economy.

To his credit, Mr Bush has so far ignored much of the congressional clamour to punish China. But silence is not enough. By failing to make a strong, public case for open markets, he is storing up trouble for the future. The White House's silence over the CNOOC acquisition allowed a perfectly reasonable commercial deal to collapse for misplaced political reasons. Last week's deal on textiles was not as Luddite as many southerners in Congress wanted; but Mr Bush's failure to take on the cotton barons will hardly deter other industry lobbies. So far it has fallen to the deputy secretary of state, Robert Zoellick, to explain how China can become a “responsible stakeholder” in the international system. Mr Bush should use his visit to build on this constructive case and take on the China-bashers more publicly—not only for the sake of China trade but also to stress America's commitment to free trade in general.

Coax—and co-operate

Beyond economics, Mr Bush needs to balance two sometimes competing imperatives. The first is to continue to use American muscle to encourage China's leaders to behave better towards their neighbours—and their own citizens. China needs to be talked out of its missile build-up opposite Taiwan and its stoking up of nationalist sentiment against Japan.

The regime does, after all, sometimes listen. When its National People's Congress passed a resolution in March threatening Taiwan with invasion, the ensuing outcry in the West destroyed Mr Hu's hopes of the arms embargo imposed on China after the Tiananmen massacre of 1989 being lifted in Europe. Since then, China has courted Taiwan's politicians—albeit the opposition ones—and toned down its attacks on its president, even though it abhors his support for the island's independence. Mr Bush also has a duty to press China on its systematically abysmal human-rights record—although America's own ambivalence on torture and lapses at Abu Ghraib and Guantánamo Bay have made its lectures easier to ignore.

The second imperative is for America to find a way to work harmoniously alongside a China that is just beginning to find its way as a great power. Not every encounter has to be treated as a face-off between rivals. China says it wants to become a great power in the way America mostly did—not by conquest and plunder but by trading and co-operating with others. A lot of its regional diplomacy is useful. It is helping—though could doubtless do more—to talk North Korea into giving up nuclear weapons. Having once held aloof, China has lately become a great joiner of institutions. It is pushing for a free-trade deal that would link the ten South-East Asian economies with three of those of North-East Asia (its own, plus Japan and South Korea). The fact that it is now the largest

trading partner of many of these countries reflects tact as well as muscle. Unlike America, which often takes allies for granted, China works patiently to cultivate friends. In 2003, for instance, Mr Bush went to Australia for a mere 18 hours or so. The next day, Mr Hu arrived, and spent three days there.

If you take a bleak view of the way history works, the great power that America is must one day collide with the great power China is destined to be. But there is no need to be so bleak. Much depends on when and how the Chinese Communist Party loses its monopoly of political power. For as long as China remains totalitarian in this respect, there can be no true meeting of minds with America. But in the meantime China and America have to co-operate. And part of the job of an American president is to prevent the narrow interests of protectionists at home from disrupting a relationship which, if it is handled correctly, could contribute so much to the peace and prosperity of mankind.

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Germany's new government

Taxing times

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Angela Merkel's coalition programme risks doing serious damage to the economy

Getty Images

IT HAS taken weeks of hard bargaining for the partners in Germany's "grand coalition" to agree on a joint programme. Not surprisingly, the outcome was a messy compromise (see article). But after the deal was approved by this week's special party congresses, the way is at last clear for Angela Merkel, leader of the Christian Democrats (CDU), to become Germany's first-ever female chancellor on November 22nd.

Sadly, it is not clear that she will be a success in the job. There are some good things in the coalition's programme: a plan to reform Germany's blocked federal system, a shift in foreign policy towards a more pro-American stance, a firmer line on Russia and China. But, in the critical area of economic policy, the clash between Ms Merkel's pro-reform views and the anti-reform instincts of many Social Democrats (SPD) has produced what may prove the worst of both worlds.

The CDU has managed to include minor labour-market reforms, plus confirming an eventual rise in the pension age to 67. But it has had to drop its bolder ideas for liberalising markets and shaking up the welfare state. Instead the coalition deal focuses on cutting Germany's yawning budget deficit by a net €35 billion ($41 billion) a year. Much of that cut is to be achieved through hefty tax increases: value-added tax is to rise from 16% to 19%, various tax breaks will be scrapped, and the top rate of income tax will go from 42% to 45%. A planned corporate-tax cut has been postponed.

Deficit hawks will be delighted by this outbreak of fiscal austerity. But ordinary Germans may be less pleased. Although the economy is showing welcome signs of life, and German business is in bouncy shape after years of cost-cutting, domestic demand remains extremely weak. In this situation, the last thing that hesitant consumers want is to be clobbered by tax increases. After Japan decided in 1997 to take advantage of an incipient recovery to raise consumption taxes in the hope of cutting its huge budget deficit, the economy tanked again—and the deficit rose.

Yes, but Germany is different, say advocates of fiscal rectitude. For one thing, the coalition negotiators have cleverly put off the biggest tax increases until 2007. Not only does that give the economy a year to cement its recovery; it also gives consumers an incentive to advance big-ticket purchases before higher VAT kicks in. Fiscal retrenchment could also be partly offset by monetary easing. And some economists believe in a German form of "Ricardian equivalence"—the notion that consumers may be readier to spend after tax rises because an improvement in the public finances means they will not face further heavy tax increases in future.

Yet none of these arguments is convincing. After spending years becalmed in the doldrums, only to see an inconclusive election that leads to a postponement of much-needed reforms, German consumers seem unlikely to recover their enthusiasm quickly. A revival in euro-zone output means that interest rates are more likely to be raised, not cut, in the coming months (see article); the European Central Bank cannot easily reward a single country for embarking on fiscal tightening. And, although there is some European evidence that fears of future tax increases can lead people to save more today, it seems highly unlikely that a net fiscal adjustment as big as €35 billion will be offset by lower personal saving. In any event, as the CDU argued in its election manifesto, the last thing a high-tax economy such as Germany's needs is still higher taxes.

Merkel's misfortune

Perhaps the tax increases will not be put into effect. Gerhard Schröder, who became the SPD chancellor in 1998, used to boast that he had never even read his party's coalition deal with the Greens, much less put any of it into effect. Once Ms Merkel takes office, the pressure of events may push her government off the path of fiscal austerity and back towards labour- and product-market reforms instead.

The trouble is that a grand coalition agreement is different from most normal government programmes. The parties disagree so sharply that they will try to hold ministers quite closely to the terms of the deal they have so laboriously hammered out. Indeed, precisely because of this tension, the coalition may well not last much more than two years. As soon as one of the parties senses that fresh elections might be to its advantage, it will be tempted to pull out of the government. The risk is not only that Ms Merkel's coalition will follow wrong-headed economic policies; it may also turn out to be unstable as well. Poor Germany.

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Israel and Palestine

Encore, please

Nov 17th 2005
From The Economist print edition

Condoleezza Rice has shown what America might achieve if it tries harder in Palestine

AP

IF SHE does not mind, *The Economist* would like this week to present a bouquet to America's secretary of state, Condoleezza Rice. She has doubly earned it. On a fairly routine visit to Israel on November 14th, she tore up her well-choreographed schedule, extended her stay, bargained through the night, and persuaded Israel and the Palestinian Authority to work out a way to allow Palestinians to come and go from the Gaza strip (see article). In so doing, she did not just contribute mightily to the quality of Palestinian life in Gaza, which will in turn augment the chances of Israel's recent evacuation of the strip leading to a more peaceful future. She also demonstrated the truth of a message this and other newspapers have belted out like a gramophone record for the past five years: that there will be no breakthrough without some genuine, detailed, hands-on American re-engagement in the so-called “peace process” in the Middle East.

Though it sounds like a statement of the obvious, this is a message American administrations do not always believe, for understandable reasons. Hands-on engagement does not guarantee success. Typically, American peacemaking is ground down by attrition. Whereas this conflict is one of many files in a president's in-tray, it is the daily, nightly, life-and-death obsession of America's Israeli and Palestinian interlocutors. And whereas Americans typically think big, this conflict requires the nerdism of a miniaturist. Henry Kissinger in the 1970s had to become an expert on the topography of the Suez canal and the Golan Heights. Bill Clinton by the end of his presidency had mastered the spatial intricacies of the Sea of Galilee and Jerusalem's Temple Mount—to say nothing of steering his way round the neuroses and vanities of Yasser Arafat and Israel's Ehud Barak. Even then America's achievements were modest. George Bush, big picture to a fault, came into office full of contempt for Mr Clinton's attempt to micro-manage a peace, which in the eyes of Republicans produced only the eruption of a murderous Palestinian *intifada*.

It is possible, just about, to make a case that in 2001 Mr Bush was right: the conflict had reached a point where Israel and the Palestinians had to stew in their own juice (or, in fact, blood) a while before seeing the need to return to diplomacy. But now they have returned, and now they need America's help.

Fifteen years ago, an exasperated James Baker, secretary of state for the first President Bush, said that America could not want peace more than the parties did. He was wrong. This conflict poisons the whole world, not just the protagonists—and with the single half-exception of the Oslo accords no progress has ever been made without the concentrated attention of the United States.

Ms Rice, after receiving her bouquet, should plan a return to Jerusalem for a follow-up agreement on easing movement on the West Bank and to put the “road map” back on track. After this week, she knows it makes sense.

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The insurance industry

Pricing terror

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America's government still has a role to play in insuring against a big terrorist attack

Reuters

OF ALL the catastrophes that could befall America in coming years, a big terrorist attack, perhaps even bigger than those on September 11th 2001, may be more likely than others. Who would pay for the millions in property damage, business losses and other claims from such an attack?

This is the question with which America's Congress is currently wrestling (see article). The Terrorism Risk Insurance Act (TRIA) was passed as a temporary measure after September 11th to provide a government back-stop for the insurance industry in the event of a catastrophic attack. It now says government can step in when insured losses from a terrorist event top $5m. TRIA has helped to stabilise the market, and enabled insurers to continue offering terrorism-risk cover even after swallowing the big losses imposed by September 11th. But unless Congress acts fast, TRIA will expire at the end of the year. One likely result is the loss of terrorism-risk cover for thousands of firms and property owners. This, in turn, could disrupt businesses and make some commercial activity impossible. With modifications, TRIA should be extended.

The Bush administration has been opposed to extension. It has always seen TRIA as a short-term measure, and has argued that the private sector should assume sole responsibility for terrorism insurance. This is the right goal. A purely private solution would be best, lifting any future burden from the taxpayer and relying on the industry to price and spread risks more accurately than any government can do. But relying entirely on the private sector immediately does not look feasible. With TRIA's expiration looming, insurers and reinsurers have not, as the administration expected, rushed to write new contracts for next year offering to fill gaps in terrorism cover.

Why the hesitation? Unlike other risks, the threat of terrorism cannot be forecast in time or scope, making a mockery of insurers' underwriting models. A big chemical, biological or nuclear attack is a prospect few can price, or afford to cover. Insurers are already being threatened with downgrades by rating agencies for the terrorism cover they have sold.

One reason is that insurance, far from being a free market, is already one of the most heavily regulated of industries. Operating in a highly distorted marketplace, with 50 state regulators, the insurance industry seems to be having trouble pricing the largest of terrorism risks in a way that is credible and can still offer insurers a profit. Letting TRIA expire, and abruptly withdrawing the government role in insuring the largest losses, would just exacerbate this problem.

Any renewal of TRIA should, once again, be limited—to two years, say. Its extension must also shift more of the burden, and the business, to the private sector. If an extension is agreed, and TRIA's threshold for government intervention is raised substantially, work should begin now to find better longer-term solutions. One place to look is abroad, where governments have dealt with terrorism risk for years. In Britain, for instance, insurers have created a pool of capital that is backed by the government and, over time, shifts a greater share of risk on to the private sector. Other options to consider include tax changes that reduce the cost of holding capital by insurers and reinsurers, and facilitating the use of catastrophe bonds.

With fewer regulatory distortions of insurance markets, a solely private solution may be attainable in the long run. In the current environment, though, the same government that regularly warns of terrorist threats must still have a role to play in a solution that safeguards America's financial security. It would be better to plan ahead than wait for a rushed, Katrina-style bail-out after a big attack. Amid all the uncertainties, one thing seems clear: any such bail-out would be more costly and lead to even greater market distortions without an extension of the Terrorism Risk Insurance Act today.

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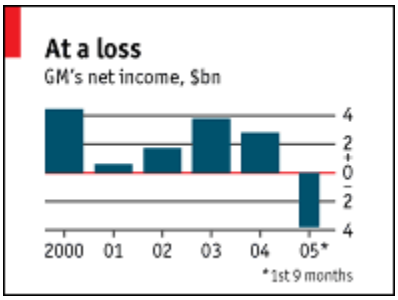
General Motors

Detroit's wounded giant

Nov 17th 2005
From The Economist print edition

The world's biggest car firm needs to confront its demons

Get article background



IN 1943 General Motors invited a promising young author (Peter Drucker, who died this week: see article) to study the company from the inside. The book this sojourn produced influenced generations of leaders and managers. But it was ignored by GM itself, which remained famously bureaucratic and as complacent as one might expect of a company that then dominated the biggest car market in the world. One wonders what a business academic on a similar mission would make of the world's biggest carmaker today: its domestic market share is down to around 25%; it has tumbled back into losses; and it is hobbled by the high wages and generous health benefits promised to its existing and former workers.

The latest of a series of woes to afflict the company include an investigation into its accounts by the Securities and Exchange Commission and, last week, a re-statement of earnings in 2001 (see article). Unless GM can magically turn around its falling market share and mounting losses while slashing its labour costs, it could be headed for bankruptcy in a couple of years. It is burning cash at the rate of $5 billion a year and faces extra liabilities of up to $11 billion following the collapse of Delphi, the parts maker spun out of GM six years ago. It is planning to sell a slice of its profitable finance business, GMAC, and has flogged at a loss its stake in a Japanese carmaker, Fuji's Subaru, to Toyota—the nemesis that looks set soon to snatch its crown as the world's biggest car firm. Earlier this year, GM even had to pay $2 billion to wriggle out of a promise to buy all of Fiat, Italy's ailing carmaker in which it had unwisely invested $2.4 billion some years ago.

Right now the company faces additional threats. If attempts by Delphi to cut wages and benefits lead to a strike there, GM's supply chain could be sundered and production halted. The American car market may be about to turn down, after an unusually long run of high demand since 1999. Toyota is revving up new products that will increase competition. Moreover, the large SUVs, upon which GM has long relied for most of its profits, are going the way of the hula-hoop in an era of higher petrol prices.

GM's travails are most often discussed in terms of the enormous costs of the pension and health-care promises that it so cavalierly made to employees in easier times. But the company is also like some Gulliver tied down by other, equally damaging, concessions it made to the United Auto Workers union (UAW), which mean it cannot easily close factories and cut payrolls to adjust to straitened circumstances.

Making these self-inflicted constraints even worse has been GM's inability to do what it once did best: come up with products that American consumers love to buy. For almost a decade GM has

sustained its sales volumes only by offering deep price discounts that eat into its already weak profit margins. Ford and the Chrysler division of DaimlerChrysler have been obliged to follow suit. GM has improved the appeal and quality of some products, notably its Cadillac models, but not enough to win the loyalty of American consumers long accustomed to turning to Toyota, Nissan and Honda for everyday transport and to Mercedes and BMW for fancier models.

Red lights should be flashing

As a matter of urgency, GM now needs to cut its production capacity in North America to fit the volume of vehicles it can sell at a profit, rather than staggering from one sales incentive to another, hoping something will turn up, as it has been doing for years. It is mulling another round of closures and has already won a $1 billion annual concession on health costs from the UAW. But it needs to do far more than this, and fast.

GM must spell out a realistic vision of the future and invite the UAW to co-operate, or face even greater job losses. Unless GM's management wins more freedom to run the company on a sustainable basis, its long decline will continue. It would be better to risk a confrontation, even a prolonged strike, than to let things drift. Otherwise, the best option might be to follow Delphi into Chapter 11 sooner rather than later, and seek the protection of the courts to help it break free of the UAW. After all, this has worked for America's stricken airlines. Further drift is in no one's interest, not even the UAW's.

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On globalisation,world peace, patents, abortion, the dugong's survival, beer

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From The Economist print edition

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Trading blows

SIR – You take issue with Senator Charles Schumer's proposed tariff on Chinese imports (to force the revaluation of its currency), going so far as to claim he believes "far too many Chinese peasants are escaping poverty" ("Tired of globalisation", November 5th). Much has been made in recent months about the overvaluation of the yuan and how it simultaneously subsidises Chinese exports while serving as a tariff on all imports. The extent to which the currency is below market value is up for debate, and probably not as bad as Mr Schumer claims. But his proposal is justified based on the effective tariff China places on foreign goods via a forcibly undervalued currency.

Moreover, most of the development in China that has happened because of globalisation is concentrated in what were already relatively well-off coastal areas before free trade arrived. The cities have prospered, while inland rural areas, where most of the "peasants" live, have been left behind and the people there are still very much in poverty.

Matthew Kennedy
Montreal

SIR – The assault on free trade was spearheaded by the United States, which has put pressure on small and weaker countries into signing regional and bilateral "free-trade agreements". These agreements are grossly asymmetrical and closer to controlled, rather than free, trade. A prominent feature of these deals has been tied trade—the inclusion of a minimum level of Israeli content in Egypt's exports to the United States is a good example. To add insult to injury, these agreements force developing countries to reduce significantly their tariffs on industrial goods from the West, yet at the same time maintain very high tariffs on their competitive exports, such as agricultural goods.

The developing world is no longer willing to accept this gross asymmetry and protectionism. Doha may well fail—but it is a failure that has been instigated by an intransigent and hypocritical West.

Hendrik Weiler
Cairo

SIR – John Lennon must have been rolling in his grave. "Imagine" did make us think about a world with no countries—but also one with no possessions. His version of globalisation included the free flow of people and ideas, not just goods and services. Millions of people have suffered increasing poverty thanks to free-trade policies promoted by institutions such as the World Bank and

International Monetary Fund. They said Lennon was a dreamer. True—but he's not the only one.

Linda Charbonneau
Montreal

Giving peace a chance

SIR – One wonders why peace doesn't deserve an honourable mention in the global debate on aid ("Pro Bono", November 5th)? A fair reckoning of the costs America bears in providing security worldwide would place its contribution to bettering the lot of the world's poor far higher than the stingy-seeming 0.15% of GDP spent on aid that you cite. Thanks in part to the 4%- plus of GDP we American taxpayers spend annually on our armed forces, huge populations enjoy unprecedented freedom from the fear of war. Whatever motivations one ascribes to American security policy, its positive externalities represent a global good of the most fundamental sort.

Bernard Sucher
Moscow

Integrated systems

SIR – Your survey of patents and technology described the "ecosystems" of third-party developers and service businesses that enable companies to make money from open-source systems (October 22nd). Yet surely the biggest ecosystem ever is the one revolving around Microsoft, which is hardly a proponent of open-source. Hewlett-Packard, IBM, Nokia, Sun Microsystems et al are all computer-hardware vendors. As the demand for hardware rises when the price of software falls (hurting Microsoft in the process), hardware manufacturers have a strong incentive to make software a commodity. Couldn't this simple economic fact explain why the companies you mention embrace the open-source movement with such ardour?

Emmanuel Bégué
Paris

SIR – You put your faith in more efficient markets, but if the patents themselves are illegitimate (as you claim), then how can efficient markets that trade in them make things better? Inevitably, this senseless proliferation of the "negative right" to exclude others will have grave consequences for industry and society.

Eric Ojard
San Francisco

Catholics and abortion

SIR – Frances Kissling writes that Catholic law "recognises the right of Catholics to follow their conscience" on abortion (Letters, October 29th). Yet Catholic catechism states: "Since the first century the church has affirmed the moral evil of procured abortion. This teaching has not changed and remains unchangeable." And with regard to conscience, it states that: "The education of conscience is indispensable for human beings who are subjected to negative influences and tempted by sin to prefer their own judgment and to reject authoritative teachings." Regardless of the findings of certain opinion polls, abortion is not compatible with being Catholic. We are all made in the likeness and image of God, even if unwanted or imperfect, and must safeguard all human life from conception until death.

Dr Kathleen Raviele

Catholic Medical Association
Needham, Massachusetts

D-Day for the dugong?

SIR – There is no indication that the latest plan from Japan and the United States to build an air base on reclaimed land at Henoko, in Okinawa, will save the feeding grounds of the dugong, a rare sea-cow ("No home where the dugong roam", October 29th). The latest proposal requires the landfilling of large portions of the dugongs' sea-grass habitat in Henoko and neighbouring Oura Bay. The United Nations has recognised this habitat as essential for the creatures' survival and recovery, yet it is now threatened by land reclamation. The value of preserving an endangered species aside, the cultural importance of the dugong must not be underestimated. For Okinawans, it represents a historic connection to the natural world on a par with Americans' reverence for the bald eagle. A lasting solution to the Okinawa impasse can only be reached when the two governments respect local communities by ensuring, in accordance with American, Japanese and international laws, the survival of the dugong.

Marcello Mollo
Earthjustice
Oakland, California

Campaign for real ale

SIR – You explained how beermakers use consumer-marketing techniques to launch "local brands into new markets where they can be seen as premium products" ("Head to head", October 29th). This surely illustrates how beers that are perceived as cat's piss in one country become premium brands in another. As the Romans put it: *Mundusvult decipi*—the world wants to be deceived.

Marc Holvoet
Maarkedal, Belgium

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China's world order

Aphorisms and suspicions

Nov 17th 2005 | BEIJING
From The Economist print edition

As George Bush goes to China, the world's two biggest powers continue nervously to appraise each other's ambitions

HU JINTAO, China's president, has a favourite phrase these days: “harmonious world”, where countries of different outlooks live together in peace. Mr Hu first unveiled this John Lennonesque idea in a speech at the United Nations on September 15th. His official talks during recent visits to Asia and Europe have been peppered with it. And President George Bush, preparing for his first visit to China since Mr Hu took office, will doubtless hear it too.

Mr Hu does not say so himself, but the Chinese media have made it clear that harmonious world is a part-rebuff to American “hegemonism”. Countries with different political backgrounds should be listened to, and given respect. Everyone should interact “democratically” through the United Nations. The implication is that China, as an emerging power at odds with American ideology, would be a beneficiary of a world order in which American power is constrained.

There is nothing palpably new in Mr Hu's thinking. It suggests a willingness to engage with America despite political differences, but this has been China's stance for more than a quarter of a century. Ever since the end of the cold war, it has dreamed of a “multipolar” world order. What has emerged since Mr Bush's last visit to China, however, is that under Mr Hu the country's diplomacy has become distinctly more robust—partly, some in Washington fear, to the detriment of American security.

In February 2002, when Mr Bush was last in Beijing, relations between China and America were still under the spell of a post-September 11th surge of goodwill. China was eager to repair relations that had been badly damaged in April the previous year by the collision of a lumbering American spy plane with a prank-playing Chinese fighter jet that flew too close. America was keen

to cultivate a potential ally in its campaign against Islamic terrorism. China quietly acquiesced in a big expansion of American military power on its doorstep in Central Asia as part of operations in Afghanistan. It criticised the American invasion of Iraq, but not stridently.

Three years later, China remains very far from ready to challenge America head on. It still sees enormous benefit in keeping on good terms with its biggest export market (see article). But just as America is hedging its relationship with China by maintaining a strong military presence in Asia, so China is trying to strengthen its relationships in Asia and farther afield. This is at least partly a precaution against encirclement by a string of American bases around Asia (see map) and an enhancement in recent years of American security ties with Japan and Taiwan. China has no bases abroad.

In Central Asia, the Shanghai Co-operation Organisation (SCO), a security forum comprising four Central Asian states plus China and Russia, is increasingly challenging America's military presence in the region. In July the SCO, prompted by China and Russia, demanded a timetable for the withdrawal of American troops from member states. In August, China and Russia staged their first joint military manoeuvres since the cold war. “Peace Mission 2005”, billed as a counter-terrorist exercise, looked far more like preparation for a Chinese assault on Taiwan.

On the Korean peninsula, China and America have been drawn together by a common desire to prevent tensions over North Korea's nuclear programmes from turning into a full-blown crisis. America has praised China's role in hosting talks aimed at persuading North Korea to abandon its projects. But China has also deftly used the process to boost its ties with South Korea, a participant in the talks whose conciliatory approach to the north is often closer to China's than

America's.

Despite tensions between South Korea and America over how to handle North Korea, their defence relationship remains solid for now. But China has an eye on the longer term when, if relations between the two Koreas improve sufficiently, greater uncertainty will arise about the need for American bases in the south.

In South-East Asia China has skilfully positioned itself as a central player, to the extent that the Americans are beginning to feel a little left out. On December 14th in Kuala Lumpur the first East Asian Summit will be held, involving the ten members of the Association of South-East Asian Nations (ASEAN) plus China, Japan, South Korea, Australia, New Zealand and India. With no American leaders invited, there is no doubt that China will be the star of the show. Its position will be bolstered by a surging economy that is generating trade surpluses with China for several Asian countries, in contrast to the record trade deficit between China and America that is fuelling so much of American public fear of a looming China threat.

Farther afield, China came close last year to driving a wedge between America and the European Union. Much to America's consternation, the Europeans appeared to be moving towards accepting China's demand that they lift their embargo on arms sales to China, which was imposed in the wake of the Tiananmen Square killings of 1989. The Americans feared this would give China access to military technologies that could be used in a conflict with America in the Taiwan Strait.

In a relationship as vitally important and emotionally charged as that between America and China, it is easy for such manoeuvres by either side to be perceived as threatening. In America, a widespread political view of China as a looming menace is reflected in the latest annual report by the US-China Economic and Security Review Commission, a bipartisan congressional panel of usually gloomy cast.

The 263-page document, published last week, says that “China's methodical and accelerating military modernisation presents a growing threat” to American security interests in the Pacific. In Central Asia, the SCO's call for an American withdrawal shows that “China's commitment to combat terrorism is secondary” to its desire to reduce American influence in the region. It refers to the “growing volume and credibility” of China's threats against Taiwan. It speaks of unspecified “evidence” that Chinese companies are continuing to transfer key technologies related to missiles or weapons of mass destruction (WMD) to North Korea, despite China's efforts to settle the nuclear dispute.

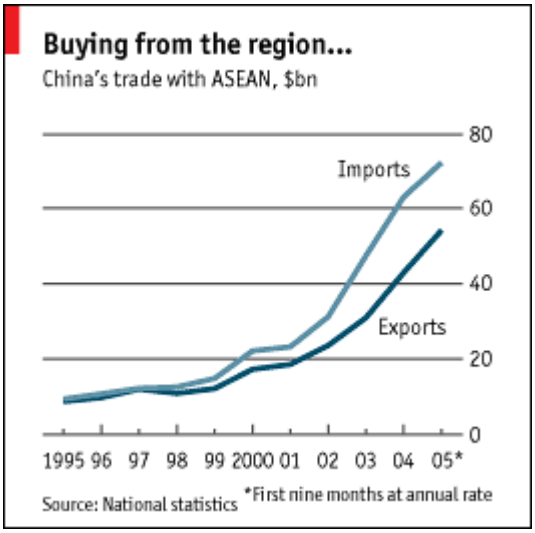
But how much of this American unease is a justifiable response to a genuine threat? Chinese diplomacy, however disturbing, is still incapable of blocking the projection of American power. America may be irritated at not being part of the East Asia Summit, but without it such summitry is of limited importance. And in any case, it has close allies which are taking part, rather to China's annoyance.

Military manoeuvres

Most South-East Asian countries are happy to cosy up to China for economic reasons, but they still see America as a vital guarantor of the region's security. Even China does, though it does not say so openly. Most of China's oil imports pass through the Malacca Strait between Indonesia and Malaysia. So do those of America's friends and allies, Japan, South Korea and Taiwan. In this respect, China and America have strong common interests.

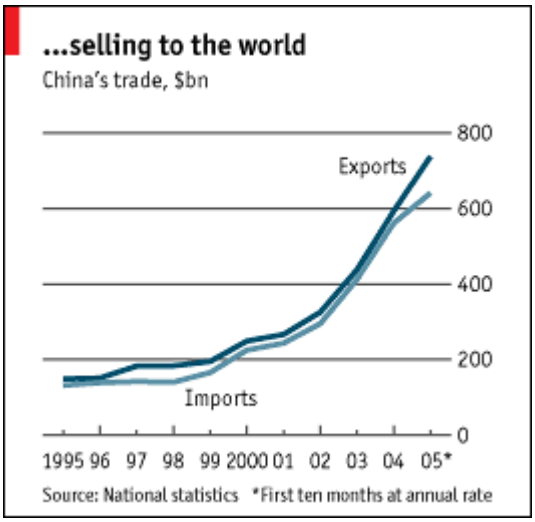
Kenneth Lieberthal, a former director at the National
Security Council, says the Chinese have become “much

more active" in Asia. But they are not, as he sees it, directly challenging America—rather "filling in" as the Americans have focused their attention elsewhere. Even though the SCO's call for an American withdrawal from Central Asia was unwelcome in Washington, Mr Lieberthal notes, America itself had said the bases could be given up when they are no longer needed for operations in Afghanistan.



In a report in July, the Pentagon expressed concerns about China's military power in the region, saying that current trends in China's military modernisation could provide China with a force "capable of prosecuting a range of military operations in Asia—well beyond Taiwan". But even the hawkish Pentagon says China's ability to project conventional military power beyond its periphery remains "limited" for now. China, says the report, "does not appear to have broadened its concept of operations" to encompass sea control in waters beyond Taiwan. The limitations of Chinese power-projection in the region were amply demonstrated in the aftermath of the tsunami of December 2004, when, in contrast to America's highly visible military-backed role in the relief work, China's presence was marginal.

There is no sign that American remonstrations have persuaded China to put the brakes on its military build-up on the coast facing Taiwan—estimated by the Pentagon to include the deployment of between 650 and 730 mobile short-range ballistic missiles, with the number increasing by around 100 each year. But there are plenty of signs that China has little interest in resolving the Taiwan issue militarily and that it regards its extensive economic ties with Taiwan as hugely important. Assuming that Taiwan does not declare formal independence—a step that America would do its utmost to deter Taiwan from taking—China appears ready to live with the status quo of a Taiwan that is, in effect, independent already. China's growing military capability by no means gives it confidence that a military strike would help it achieve durable political control in Taiwan at a sustainable diplomatic and economic cost.



During his tour of Britain, Germany and Spain before heading off to South Korea this week, Mr Hu—despite all the enticements of China's surging economy—received a cool response on the arms-embargo question. European attitudes have changed significantly in recent months, thanks partly to American remonstrations as well as to China's enactment in March of a new law authorising the use of force against Taiwan should the island move towards independence.

A need for candour

Some aspects of China's more visible diplomacy do more than just grate on nerves. In its global pursuit of sources of energy and raw materials to fuel its economic growth, China has strengthened bonds with countries distinctly inimical to American interests, including Venezuela, Sudan, Zimbabwe and most crucially Iran, a big supplier of oil to China. Chinese opposition made it difficult last year to take up Sudan's Darfur crisis at the UN Security Council. Similarly, China is

not keen to allow the council to take up the issue of Iran's nuclear activities. But it remains far from certain that China would use its veto to block such a move. For all its diplomatic bluster, China has remained reluctant to veto initiatives in the UN that are regarded by America as strategically vital.

America does have reason to worry about China's proliferation of WMD and missile technologies. Mr Bush's administration has imposed sanctions on numerous Chinese companies, mostly for transferring such technologies to Iran. But even in this area there are some grounds for cautious optimism. As Evan Medeiros, a researcher at RAND Corporation, an American think-tank, observes in a recent study of China's WMD-related export controls: “China is still several costly and time-consuming steps away” from a fully functioning export-control system. But, he says, China now considers implementation of its non-proliferation commitments a “priority item”, particularly since the September 11th attacks.

For all the growing scepticism among American politicians about China's global ambitions, Mr Bush's public view of China has evolved considerably from his pre-presidency characterisation of it as a “strategic competitor”. In the build-up to his visit this weekend, he has been conspicuously even-tempered towards his hosts. “We've got an important relationship, and it's a good relationship,” he told Asian reporters last week. To make a point about human rights in China, he met the Dalai Lama, Tibet's spiritual leader-in-exile, at the White House on November 9th—but without press photographers, in apparent deference to Chinese sensitivities. On his arrival in Asia, Mr Bush also made sharp remarks about Taiwan's “free and democratic society” and China's need to “continue down the road of reform”. But his officials have focused on trade issues, rather than security matters.

The contours of Mr Bush's current strategy towards China were outlined in a remarkably upbeat speech in September by Robert Zoellick, the deputy secretary of state. “Picture”, he said, “the wide range of global challenges we face in the years ahead—terrorism and extremists exploiting Islam, the proliferation of weapons of mass destruction, poverty, disease—and ask whether it would be easier or harder to handle those problems if the United States and China were co-operating or at odds.”

Mr Zoellick pointed out significant differences between China and an erstwhile cold-war enemy, the Soviet Union. China, he said, was not trying to spread radical anti-American ideologies. It did not see itself in a “twilight conflict against democracy around the globe” nor (despite occasional mercantilism) as being engaged in a life-or-death-struggle with capitalism. Most important, Chinese leaders had decided that their success depended on being “networked with the modern world”.

But Mr Zoellick warned of the dangers of trying to “secure the Communist Party's monopoly on power through emphasising economic growth and heightened nationalism”. He said China could reduce anxieties by being more open about its military intentions and spending. Such views are strongly shared by many of China's neighbours, not least Japan, which feels particularly uneasy about China's rise and the party's efforts to strengthen its legitimacy by condoning virulent expressions of anti-Japanese nationalism.

The biggest weakness of Mr Hu's call for a “harmonious world” is that it does nothing to address a significant underlying cause of other countries' suspicions: China's opacity and disdain for democracy. Ironically, Mr Hu at the UN spoke highly of “democracy in international relations” and said that efforts to impose uniformity on different societies would only “take away their vitality and cause them to become rigid and decline”. But he made no mention of the need for any political pluralism at home.

“Change is coming”, Mr Bush told an audience at one of Beijing's most renowned universities,

Tsinghua, during his trip in February 2002. He went on to quote Deng Xiaoping, China's late leader, as saying that democratic elections would eventually be held at the national level. But he will find on his trip that nothing has changed politically. For all America's hopes that economic prosperity would spur political reform, the best that China has offered (just this September) is the vague possibility that elections currently conducted at the village level could be extended to the next level up, the township, “in several years”. Village elections themselves have hardly proved shining exemplars of democracy in action.

When it comes to soothing catchphrases, the party has a patchy record. Before “harmonious world” came China's “peaceful rise”—a term that fell by the wayside as officials bickered over whether it sounded a bit too menacing, or perhaps just the opposite as far as Taiwan was concerned. It would be more reassuring to the outside world if Mr Hu abandoned aphorisms and simply talked straight.

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Tensions with China

The new face of globalisation

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The real threats to America's economic relationship with China lie at home

SOPHISTICATED pragmatism is not an attribute often associated with George Bush's economic team, whose officials are normally no more than dogged salesmen for ideologically inspired policies, such as massive tax cuts or privatising pensions. One exception may be China, which Mr Bush visits on November 19th.

Economic officials in the Treasury and the office of the United States' Trade Representative have forged a workmanlike, even nuanced, relationship with the People's Republic. They have avoided the China-bashing rhetoric of, say, the Pentagon while fending off the most egregious Sinophobic protectionism from Congress. The result is a bilateral economic relationship that is far closer than many realise.

That offers welcome relief for a weakened president. With his poll ratings sagging and dogged by questions about Iraq, Mr Bush is desperate for a low-key foreign trip. What better than to have “discussions with two friends”, as one adviser puts it, on China's currency and its progress on protecting intellectual-property rights.

Although Mr Bush may sound stern on the yuan to appease China-bashers in Washington, DC, no one expects real tub-thumping. The Bush strategy, as articulated recently by Robert Zoellick, the deputy secretary of state and point man on China, is not to demonise Beijing but to prod it to become a “responsible stakeholder” in the world economy.

The Bush team has not quite lived up to that standard themselves. They caved in to the textile lobby, by introducing safeguard quotas against Chinese imports earlier this year and then, on

November 8th, formalised them in a deal that sustains the quota system until 2008. Over the summer, the White House was silent as Sinophobic congressmen scuttled the bid by CNOOC, China's state oil company, to acquire Unocal, a mid-size California oil firm.

But the administration has stood firm against a cacophony of demands for protection from unions to manufacturing firms. It pointedly ignored John Kerry's calls to get tougher on China during the 2004 campaign; it has refused (outside textiles) to impose safeguards against Chinese imports; and it has not declared China a “currency manipulator”. And the strategy has worked: American firms have got better access to some Chinese markets (such as semiconductors), and, despite all the rhetoric, no serious protectionist measure has made it out of Congress.

But will low-key pragmatism continue to trump protectionism? Sinophobia is strengthening and becoming shriller. Mr Zoellick has talked of a “cauldron of anxiety” about China. The pot includes some strange ingredients: security hawks, worried about China's military build-up: Christian conservatives who loathe a country that persecutes religion; and a big group that sees China as an economic threat—a by-word for all that is frightening about globalisation.

According to a recent Harris Poll, four in ten people believe that China will be stronger than America within a decade. More than half are concerned about China becoming militarily stronger within that same period; and the same proportion reckon China will have a negative effect on the future of America's economy.

These fears are reflected on Capitol Hill. Next year could be particularly tricky thanks to the political calendar, with mid-term elections in November, as well as a probable slowdown in the economy as house prices flatten off.

Nor have developments within China dispelled the fears. Its economy has become increasingly reliant on demand elsewhere. The soaring bilateral trade surplus with America is a political problem; more meaningful economically is China's overall external position, which has gone from a surplus of 1.9% of GDP in 2000 to around 8% this year. Its foreign-exchange reserves have soared above $750 billion. Those numbers give ammunition to the protectionists in Congress.

Not surprisingly, the yuan is the main grudge—and will be high on Mr Bush's list of talking points. The low point thus far came in April, when Charles Schumer, a Democratic senator from New York, and Lindsey Graham, a Republican from South Carolina, shocked Beijing—and Mr Bush's team—by winning a majority in the Senate on a procedural vote over their plan to impose 27.5% tariffs on China if it did not appreciate its currency by a similar amount.

Since then, two things have changed. China tweaked its currency policy on July 21st—away from a single peg towards a basket of currencies, with an initial revaluation of 2% and a promise of up to 0.3% more per day. That move, hailed as a big step by American officials, reassured many in Congress. Meanwhile, the Treasury changed its tactics on the currency.

The department has tried to multilateralise the pressure on China, by prodding the IMF and other international bodies to push on the currency as well. In its own discussions with Beijing, the Treasury has tried to broaden the agenda away from just the yuan—for instance, talking about the need to boost consumption in China in order to shift the economy away from a reliance on exports. And Treasury staff have been assiduously courting congressmen, touting the merits of a

broader strategy.

The problem, however, is that Congress is neither nuanced nor patient. With a mere 0.3% further appreciation in the yuan since July, congressmen are gearing up for another assault. One trigger could be the semi-annual report in which the Treasury must decide whether to label China a currency manipulator. Long overdue, this report will be issued soon after Mr Bush leaves Beijing. If the report cites China as a manipulator, that could galvanise Congress; if, as is more likely, it does not, outraged lawmakers could press on with their protectionist agenda regardless.

Messrs Schumer and Graham have technically been promised a vote before the congressional session ends this year. Their goal, they insist, is not protectionism, merely to send a signal that Beijing ought to do more on the yuan. But a large number of American senators voting for a bill that is blatantly against the WTO rules would send a terrible signal—especially if it were to coincide with the Hong Kong meeting of world trade-ministers. What kind of a “responsible stakeholder” behaves that way? No wonder Mr Bush's team is working hard to delay the vote.

Unfortunately, there are other areas where Sinophobia could have similarly unhelpful consequences. The Bush team is revising its regulations for the export of dual-use technology, for instance. Although the new rules are not yet public, many exporters worry they will be strict, thanks in part to pressure from the Pentagon. Under today's rules less than 2% of exports need a licence and only around $10m-worth were denied one in 2004. But new rules, however modest, would hardly foster integration.

That said, America has some concerns that are legitimate and unaddressed. The most important is intellectual property. China is notorious for tolerating rampant intellectual-property theft. Although President Hu Jintao assured Mr Bush in September that he was taking a personal interest in cracking down on counterfeiting, it is clear that China could do more. After all, Beijing has proved remarkably effective at preventing any rip-offs of the official logo for the 2008 Olympics—a dancing figure who doubles as a Chinese character.

As China's own innovators develop ever more patents, there will be greater interest in enforcing them energetically. The problem, again, is whether change will come quickly enough. Along with the Japanese and Swiss, American trade negotiators have formally asked the Chinese for information on their enforcement of intellectual-property rights, a move that could lead to a formal complaint at the WTO. But most trade boffins agree that the WTO is an extremely blunt tool for dealing with intellectual-property theft.

The truth is that low-key, bilateral negotiations are probably the best way to deal with all the irritants in the Sino-American economic relationship; and also the best way to push China to become the responsible stakeholder Mr Zoellick envisaged. But for that strategy to keep on working, particularly in an election year, Mr Bush will need to tackle the China-bashers in Congress head on.

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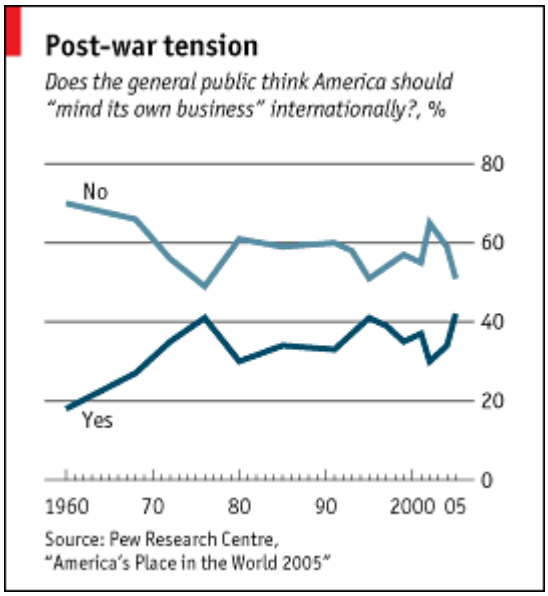
Public views of abroad

Stop the world, we want to get off

Nov 17th 2005 | WASHINGTON, DC
From The Economist print edition

Americans are growing warier and gloomier

HAS the trauma of Iraq made Americans more isolationist? A new poll, released on November 17th, finds some evidence that it has. The Pew Research Centre periodically asks a sample of opinion leaders, and another sample of the general public, a barrage of questions about "America's place in the world". Their answers are getting gloomier.



This is especially true of the elite. Asked whether America will succeed in establishing a stable democracy in Iraq, only 33% of journalists, 27% of academics and 13% of scientists and engineers thought it would. The general public were more optimistic—56% thought their country would eventually prevail. Among the elite, only military officers were cheerier, with 64% predicting victory.

As for George Bush's calls for democracy in the wider Middle East, most Americans thought this was a good idea, but few thought it would succeed. The general public were divided: 22% thought it a bad idea, 36% a good idea that would probably fail, and 34% a good idea that would probably succeed. A large majority of the elite thought it a good idea that would probably fail, with the exception of military and religious leaders, who were more optimistic.

Two-thirds of Americans thought their country was less respected than in the past. The most popular explanation was the war in Iraq. A whopping 88% of the elite cited Iraq as one of the main factors driving anti-Americanism, as did 71% of the general public.

Presumably because of this, elite and regular Americans alike are feeling less gung-ho. All elite groups (apart from the armed forces, for which no data were available) were less likely than they were in 1993 to say that America should be the most assertive of leading nations. Among state and local government leaders, the proportion fell from 78% to 54%. And among the general public, the proportion who thought that America should "mind its own business internationally and let other countries get along the best they can on their own" rose from 30% in 2002 to 42% this year. This is comparable with the peaks of isolationist sentiment after the Vietnam war and after the cold war ended.

Mr Bush can perhaps dismiss the defeatist mood of the elite. As Pew's researchers admit, the opinion leaders they interviewed were mostly Democrats. But the president cannot dismiss the

public's growing desire not to have to deal with the sort of people who strap bombs to themselves and blow up wedding parties. Speaking at an air force base in Alaska this week, Mr Bush reiterated his view that America has no choice but to confront them. Islamic terrorists, he warned, seek “to break our will and blackmail our government into isolation”. “That's not going to happen so long as I'm the President of the United States,” he promised. But a dwindling number of Americans are behind him.

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The Getty Museum

Old masters, old problems

Nov 17th 2005 | LOS ANGELES AND ROME
From The Economist print edition

The grumpy old oilman's money has ended up in some darn strange places

LOOTED antiquities, a profligate boss and now a criminal trial in a foreign country. The saga of the J. Paul Getty Museum, perched high above the Los Angeles sprawl, is beginning to resemble a B-movie from nearby Hollywood—but with no guarantee of a happy ending.

Most immediately at risk is the Getty's reputation in the murky market of international art. This week its former curator for antiquities, Marion True, went on trial in Rome charged with criminal conspiracy and the receipt of stolen archaeological items. Her co-defendant is Robert Hecht, an 86-year-old American antiquities dealer. Also involved was the appropriately named Giacomo Medici, an Italian dealer who was convicted last year and is now appealing a ten-year prison sentence.

Ms True denies having knowingly bought any looted item. So does the Getty, which is paying Ms True's legal bills. Since 1995, under Ms True's prompting, the Getty has led calls for more rigorous tracing of the provenance of antiquities (in 1999 the museum returned three pieces of dubious provenance to Italy). The Italian authorities, however, are unconvinced. “Italy is not open ground for stealing,” said Italy's culture minister, Rocco Buttiglione, last week. “What is the Italian people's should return to Italy.”

Under Italian law, anything of value that comes out of the ground belongs to the state. Yet classical artefacts are frequently dug up by so-called *tombaroli*, working on illegal (often nocturnal) excavations. It is also not unusual for previously unknown treasures of Italian origin suddenly to go on display in American museums. Tracing the connection between these two events is extraordinarily hard, which is why the trial is being followed so closely by officials in other countries, including Greece and Turkey.

The Italians have started an investigation embracing a number of American museums, from the Metropolitan in New York to institutions in Cleveland, Boston and Princeton. From the Getty the Italians have demanded the return of some 42 objects. “In the interest of settling the litigation and demonstrating the Getty's interest in a productive relationship with Italy”, the museum has just handed over a Greek vase painted more than 2,300 years ago, an Etruscan candelabrum and a 2,500-year-old Greek tombstone excavated in Sicily.

What happens in Rome, however, is not the only stain, actual or potential, on the Getty's escutcheon. Over the months there has been plenty of criticism at home, not least from the *Los Angeles Times*. The particular target is Barry Munitz, appointed in 1998—despite having no background in art—as the president and chief executive of the Getty Trust. The trust's wealth, with an endowment now worth $5.2 billion, has long terrified other museums. Mr Munitz, however, is charged with short-changing the museum's acquisitions programme in favour of the trust's conservation and educational activities.

This is supposedly one reason for the departure of several staff at the museum, notably its director, Deborah Gribbon, in October last year. Ironically, it does not explain Ms True's departure, after almost two decades at the Getty, last month. Her resignation came just as the news emerged that one of the Getty's main suppliers of antiquities had helped arrange a loan in 1995 of almost $400,000 so that she could buy a holiday home in Greece. This was ostensibly against the museum's rules, but the Getty's management had apparently known of the loan since 2002.

The most damaging charge against Mr Munitz is of unreasonable extravagance. For an employee of a non-profit organisation, he is extraordinarily well paid: in the year ending June 2004, his overall compensation amounted to $1.2m. The famously tight-fisted J. Paul Getty would no doubt also have been thrilled to discover that Mr Munitz has a $72,000 car and is a firm believer in flying first-class at the Getty's expense, sometimes with his wife.

After details of these perks appeared in the *Los Angeles Times*, together with the news of the sale of a Getty property for $700,000 less than its appraised value to Eli Broad, a billionaire who is also a friend of Mr Munitz, California's attorney-general opened an investigation into the trust's financial practices. The trust's board, too, has reacted to the revelations, setting up a special committee to check all is well (though critics note that the board includes many friends of Messrs Munitz and Broad).

Conceivably, all will be well. IRS audits in the past have apparently found nothing wrong with Mr Munitz's pay and perks; Italian justice, slow-moving at the best of times, may decide that Ms True was an innocent participant in the transfer of looted antiquities. In the meantime, the Getty is refusing to comment, beyond confirming that the Getty Villa, on the Pacific coast at Malibu, will re-open on January 28th after a renovation that began in 1997. The villa will be a study centre for the art and culture of classical Greece, Rome and Etruria—and, as Italy's cops are doubtless aware, it will house some 44,000 antiquities.

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Medicare

Spoilt for choice

Nov 17th 2005 | WASHINGTON, DC
From The Economist print edition

The prescription-drug benefit has not got off to a good start

GEORGE BUSH must rue the day he signed the Medicare prescription-drug bill in December 2003. The giveaway was advertised as a reform to the health-care programme for the elderly. It was also seen as a political triumph—trumping Democrats on their home turf of health care while shoring up support for Mr Bush from retirees. But the Medicare drug benefit has become an albatross.

To Mr Bush's conservative critics, the drug benefit epitomises the president's profligacy and lack of principle. How can a so-called conservative, they cry, sign the biggest expansion of a government entitlement in 40 years? Far from reforming Medicare to cope with an ageing population, the drug benefit adds to the fiscal burden—by more than $700 billion over the next decade alone, and much more thereafter. Democrats, unsurprisingly, are no fans either. For them, the Bush-inspired benefit is a sell-out to drug firms rather than a boon to old people.

Nor are the beneficiaries particularly happy. Confusion and frustration were mostly in evidence this week, as elderly Americans grappled with a fiendishly complicated system. All those eligible for the drug benefit have six months from November 15th to sign up for one of many competing, privately-managed plans. Anyone signing up after May 15th pays a 1% penalty for every month they are late. In most states individuals have dozens of competing plans to choose from—and they all offer different drug coverage, deductibles and co-payments.

Navigating this maze is not easy. The Bush administration has already spent $100m on providing information to the public; the insurance companies flogging the plans will spend even more. According to drug-benefit aficionados (a hellish discipline, even by the standards of Washington wonkery) the internet is the best place to compare plans. Unfortunately, many old people have never used the web.

According to a recent poll by the Kaiser Family Foundation, more than six out of ten “seniors” said they understood the plan “not too well” or “not at all”, even though around seven out of ten said they had received information about the new benefit and six out of ten said they had read it closely. Small wonder that Democrats this week were already calling for legislation to extend the enrolment period to a year.

Even before the drug benefit is up and running, however, Republicans are squirming under its fiscal consequences. During the past week, the party's leaders in both the House of Representatives and the Senate have suffered big defeats in budget negotiations, as moderate Republicans in both chambers have balked at efforts to extend Mr Bush's tax cuts on capital gains and dividend income, while at the same time feigning budgetary prudence through spending cuts, many of which fell especially hard on the poor. Though the final budget outcome was unclear as *The Economist* went to press, one thing seems certain. The loopy days where Congress could push

through such budget-busters as the Medicare drug benefit are over.

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France v America (contd)

Hyphenating beats segregating

Nov 17th 2005 | DEARBORN, MICHIGAN
From The Economist print edition

Why Arab immigrants assimilate better in the United States

HE WOULD rather talk about the new Arab-American museum in Dearborn, the first of its kind in the country. But Ismael Ahmed patiently indulges questions on another topic—whether America does a better job than France of integrating Arab immigrants—even though he thinks the answers are obvious.

Mr Ahmed, the executive director of ACCESS, a social-services agency for Arab immigrants, reckons there are clear reasons why the sorts of immigrant-driven riots that have recently shocked and shamed France seem hard to imagine in Dearborn, or in other ethnic Arab communities across America. In contrast to the situation in France and in many other European countries, he points out, the children and grandchildren of Arab immigrants to America, both Muslim and Christian, climb the same ladder of education, income and advancement that other immigrant groups have scaled successfully, from Asians to the Irish.

That does not mean that most Arab-Americans, even in well-integrated third- or fourth-generation families, feel at ease these days. The new museum in Dearborn highlights many of their worries and frustrations. Its main exhibits—which look at how Arab immigrants come to America, and how they and their descendants have contributed to American life—make strenuous efforts to dispel stereotypes and point out discrimination, especially since the terrorist attacks of September 2001. One exhibit contains a letter that was sent out to thousands of Arab immigrants after the attacks, urging them to show up for a friendly chat with the FBI.

Yet in the wake of those attacks, Dearborn's Arab-American leaders were also able to fall back on countless ties—social, educational, commercial, political—with the wider community, to defuse tensions and put nervous Arab-Americans at ease. Many of those ties had developed naturally as people in Dearborn and other Detroit suburbs went to school and did business together. Arab-American workers and businessmen are woven into the wider economy: making car parts, running petrol stations, and trying, like the rest of the rustbelt, to branch out into new white-collar professions. In September 2001, both the chief executive of Ford, Jacques Nasser, and the president of the United Auto Workers, Stephen Yokich, were of Arab descent.

Assimilating does not always mean dispersing. As with other immigrant groups, Arab-Americans tend to live in clusters. Indeed, the 300,000 living in the Detroit metropolitan area comprise the largest concentrated Arab community outside North Africa and the Middle East. But given America's economic opportunities, such neighbourhoods—in Dearborn, Flint, Chicago, New York and elsewhere—have little in common with the French *banlieues* that have erupted in recent weeks.

Immigrants from Lebanon or Iraq may head for Dearborn or the Arab section of Chicago because they have relatives there; or, when they arrive in a big city, they may gravitate towards an area

with familiar foods and festivities. But that sort of clustering reflects immigrants' choices. Ahmed Rehab, a spokesman for the Chicago branch of the Council on American-Islamic Relations, contrasts this with France, where North African immigrants gravitate to the grim high-rises of the *banlieues* because there is nowhere else for them to go. Perhaps grumpy Americans should be careful what they wish for: while they whinge about the jobs that immigrants are “stealing”, France is feeling the wrath of immigrants who cannot find jobs.

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Native Americans and energy

Dancing with windmills

Nov 17th 2005 | SAN FRANCISCO
From The Economist print edition

Indians look to the winds for cash

THE Mohave Generating Station in southern Nevada is not one of America's prettier energy sources. It has continuously exceeded pollution limits and the federal government has told its operator, Southern California Edison (SCE), that it must be refurbished by the end of this year, or else closed. Yet this deeply unlovely plant is vitally important to the Hopi and Navajo tribes, whose land it sits on. Closing the station would deprive both tribes of free energy—and a lot of money. It generates one-third of the Hopi tribe's revenue.

Nowadays, most people suppose that Indian reservations draw most of their money from casinos. But power plants have been a steady source of income for many tribes. In 2004, some $400m of oil, gas and coal royalties was split between 41 tribes. One gas-rich tribe, the Southern Ute in Colorado, claims some $1 billion in assets (though that also includes a casino). The problem is that many of the facilities are polluters and need modernising.

Mohave is fairly typical. The main difficulty has to do with water, which is especially needed to transport the coal, via a slurry pipeline. One source, a local aquifer, will be restricted. The other, the Colorado river, is governed by a deal that runs out in 2026. The tribes and SCE are trying to work out a temporary deal to keep the plant open. But in the longer term they are also considering making Mohave a more verdant facility—perhaps even eventually shifting over to solar or wind projects.

The Hopi are not the only tribe thinking of going green. Outside San Diego, the Kumeyaay tribe on the Campo Reservation is involved in an $80m wind project: its 25 turbines should bring power to 50,000 homes in San Diego County within a few weeks. The tribe had to go into partnership with a Texan company, Superior Renewable Energy, because, as a sovereign nation, it could not receive the production-tax credit which is the main government bribe to set up wind projects.

So far, the only native-owned wind turbine up and running is the Rosebud Sioux project in South Dakota, which generates 750KW and sells some of the excess power to Ellsworth air force base (recently saved from closure). To build it the tribe needed federal grants and a windfall from an alternative energy marketer, NativeEnergy, which bought upfront all the “green tags”—credits that can be traded on the commodities market so that companies without access to clean energy can offset their dirty energy consumption. NativeEnergy then sold the tags to the likes of Ben & Jerry's and the Dave Matthews Band.

The Department of Energy has set aside $2.5m for 18 tribes for renewable technologies. The new energy bill has also created an $800m bond programme which is supposed to give the tribes parity with private-sector borrowers. But, even with government help, it looks like a long haul.

Lexington

Pants on fire

Nov 17th 2005
From The Economist print edition

Will George Bush succeed in his offensive against critics of the Iraq war?

Get article background

IT HAS been a mighty long time coming. But finally the administration has hit back at the “Bush-lied-us-into-the-war” crowd. The president has given two vigorous speeches on the subject in the past week—one in Pennsylvania on Veterans' Day and one in Alaska on November 14th. Dick Cheney, Stephen Hadley, the national security adviser, and Ken Mehlman, the chairman of the Republican National Committee, have backed up his argument. And the White House has even posted a memorandum rebutting a *Washington Post* article on pre-war intelligence.

The two sides have been skirmishing about George Bush's use of intelligence ever since the fall of Baghdad. Hostilities increased with the death of the 2,000th soldier in Iraq and the indictment of the vice-president's aide, Scooter Libby (who is accused of trying to cover up briefings against a critic of the war that ended up “outing” a spy). Now all-out battle is under way. No sooner had Mr Bush taken a swipe at John Kerry than his old opponent accused Mr Bush of “playing the politics of fear and smear on Veterans' Day”. Both sides now have their war rooms.

The political stakes could hardly be higher. Mr Bush not only risks seeing domestic support for the war crumble further; he risks losing his biggest political asset, his reputation for honesty and integrity. The Democrats risk painting themselves as either opportunists (who turn against a war when it goes badly) or buffoons (too dim to question faulty intelligence when it mattered). They also risk exacerbating their biggest weakness—their reputation for being soft on terrorism and

feeble on national security.

So who is getting the best of the argument? Mr Bush starts with one big advantage: the charge that he knew all along that Iraq possessed no weapons of mass destruction seems to be a farrago of nonsense. Nobody has yet produced any solid evidence for this. Sure, Mr Bush made mistakes, but they seem to have been honest ones made for defensible reasons. He genuinely believed that Saddam Hussein possessed WMD—as did most of the world's security services. And he was not alone in thinking that, after September 11th, America should never again err on the side of complacency. More than 100 Democrats in Congress voted to authorise the war.

But being right and being seen to be right are different things. Mr Bush may not have consciously lied, but, egged on by Mr Cheney and Donald Rumsfeld, he made dreadful miscalculations. The WMD never materialised. The Iraqis who were supposed to greet American troops with flowers threw petrol bombs at them instead. You cannot get things so wrong—at a cost of thousands of lives—without paying a political price.

Moreover, Mr Bush clearly entered the debate on Iraq with preconceived ideas that skewed his handling of the intelligence. Those who supported war had to jump over the equivalent of a matchbox while those who advised caution had to leap over a mountain. And some of those preconceived ideas were always false. The Senate Intelligence Committee report suggests that the White House made repeated, if unsuccessful, attempts to persuade the CIA to find links between Saddam and al-Qaeda.

All the signs are that the White House is losing the public relations war. Mr Bush's average approval rating now stands at 37%. The latest CNN/*USA Today*/Gallup poll found that 63% of people disapprove of his handling of the war in Iraq. These doubts are undermining both his reputation for honesty and his leadership of the wider war on terrorism. The most recent NBC/*Wall Street Journal* poll shows that only 33% of Americans give Mr Bush high marks for being “honest and straightforward”, down from 50% in January, and 57% believe that he “deliberately misled” the nation about the case for war in Iraq. In the Gallup poll, for the first time a plurality of Americans (49%) disapproved of Mr Bush's handling of the war on terror. During the 2004 election campaign Mr Bush relentlessly tied the war in Iraq to the wider war on terrorism (with great success). But now this strategy is misfiring. Doubts about Iraq are depressing support for the wider war on terrorism.

How to turn your best weapon against yourself

This is a disaster for both Mr Bush and the wider Republican coalition. The war on terror was the glue that held this fractious coalition together as well as an acid that ate away at the Democratic Party's credibility and unity. Now the situation is reversed. The Democrats are united behind the “Bush lied” argument—and cock-a-hoop about opinion polls that show they are restoring their traditional lead on “Democratic” subjects like education and Social Security and improving their standing on “Republican” ones like foreign policy and taxation.

At the same time the Republicans are in a tailspin. Most of the party agrees with John McCain's view that “there is an undeniable sense that things are slipping in Iraq”. But conservative America is deeply divided over what to do about this. Mr McCain believes in sending another 10,000 troops. But on November 15th, Bill Frist, the Senate majority leader, and John Warner, of Virginia, easily pushed through an amendment calling for Iraqi forces to take the lead in providing security next year and urging Mr Bush to lay out his strategy for ending the war.

All presidencies get the blues. But John Kenneth White, a professor at the Catholic University of America, makes a point that ought to deepen the White House's mood of despair. The difference

between presidents who can shake off the blues and those who can't comes down to one thing: their ability to change the subject. Ronald Reagan and Bill Clinton both succeeded in changing the subject. Lyndon Johnson, Gerald Ford, Jimmy Carter and George Bush senior all failed to do so.

Mr Bush is forever being forced to debate the same damn subject—his decision to go to war in Iraq. And each time he debates it, a bigger chunk of the audience turns against him.

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Brazil's economy

Palocci under siege

Nov 17th 2005 | SÃO PAULO
From The Economist print edition

AFP

An effective finance minister tries to fend off corruption claims and friendly fire

Get article background

FOR much of the time since he became finance minister nearly three years ago, Antonio Palocci has been under siege. Many businessmen and economists, and even fellow-members of the government, have blasted his cautious policies, saying they undermine economic growth. Mr Palocci has shrugged off such attacks. He draws support from the financial markets, whose confidence has helped keep debt and inflation under control. Brazil's left-wing president, Luiz Inácio Lula da Silva, has backed him unconditionally.

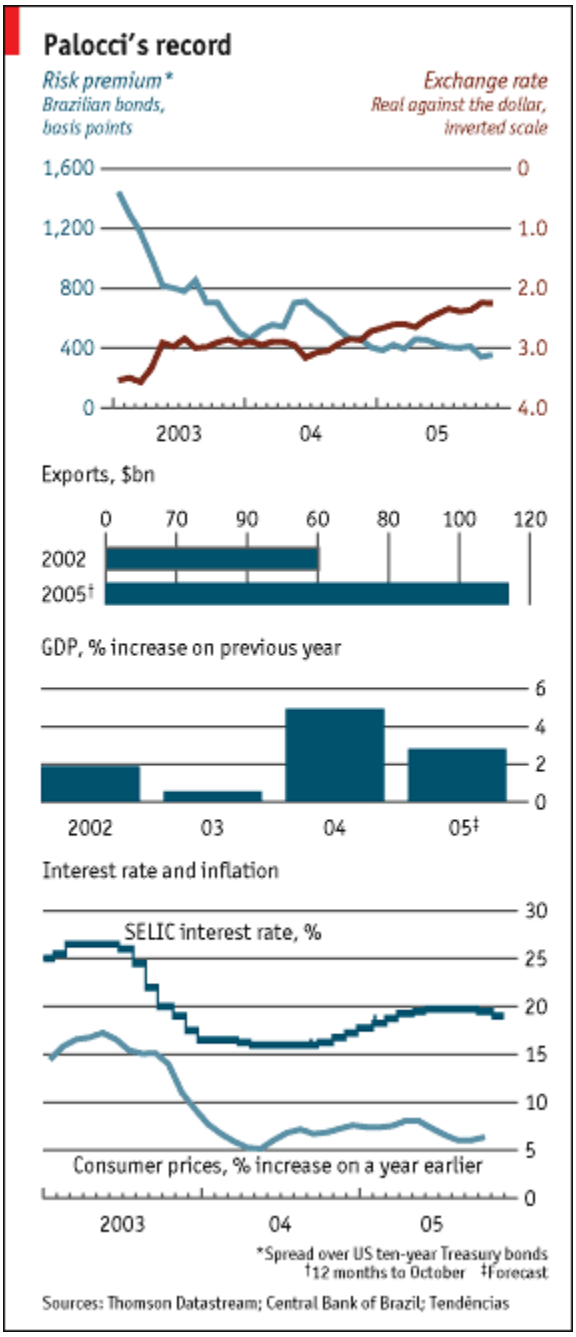
Until now. With the economy slowing and a presidential election less than a year away, the barrage has intensified. Worse, Mr Palocci has been dragged into Brazil's kaleidoscopic party-financing scandal. It is claimed that he illegally funnelled money to the ruling Workers' Party (PT), both when mayor of Riberão Preto, a city in São Paulo state, and as Lula's campaign chief in the 2002 election. Mr Palocci reportedly offered to quit. This time Lula did not rush to his defence. On November 16th, the minister broke several days of silence to rebut the claims in testimony before the Senate. His vigorous self-defence may quell speculation that he is about to resign. But investigations will continue, and he is not yet in the clear.

The prospect of Mr Palocci's downfall was enough to cause the *real* and Brazil's bonds to wobble on November 14th. In a survey by Dresdner Kleinwort Wasserstein, an investment bank, 90% of investors said that Mr Palocci's main policies would survive him. They are probably right. But Brazil requires a stronger dose of fiscal reform. That may not happen if Mr Palocci is weakened or driven

from office.

One of the minister's problems is that his success can look like failure. Stiff interest rates—the world's highest in real terms—have throttled inflation and boosted the currency. But they have slowed growth and threaten to dampen an export boom. In September, industrial output fell 2% compared with August, hit by high interest rates, waning consumer confidence and cheaper imports. The economy may have shrunk in the third quarter. Tendências, a consultancy, says that this may drag growth for this year as a whole below 3%—or less than half the average for developing countries.

Much of the blame is heaped on the central bank, which stands accused of cutting inflation too briskly—from 12.5% in 2002 to perhaps 5% this year—and of treating transient price spikes as serious threats to stability. Since two-thirds of the public debt is indexed to short-term interest rates, monetary easing would prompt “a very fast drop in public debt,” says Ricardo Carneiro, an economist at the University of Campinas. The *real* would weaken and investment might pick up. Even some orthodox economists agree that the central bank has been too slow to cut rates.



Instead of a quick monetary fix, Mr Palocci has advocated patient fiscal therapy. Its main ingredient is a primary budget surplus (ie, before interest payments) of at least 4¼% of GDP. That target is calculated to secure a gradual lightening of the burden of public debt. It was bettered in 2004, and should be this year too. There is a strong case for cutting public debt at a faster rate before the world economy's liquidity glut dries up.

The primary surpluses have come from big increases in tax revenues rather than cuts in current spending (which has risen sharply). The casualty has been central-government investment, now only 0.6% of GDP. Mr Palocci is backing a plan to entrench budget reform in the constitution. This would reduce earmarking and set a ceiling on central-government current spending, initially at 17½% of GDP and falling annually. That would make space for more public investment and lower taxes, and lead to lower debt and interest rates. If Lula and his rivals for the presidency endorse the idea, the most urgent fiscal problems could be solved before the next government takes office,

says Fabio Giambiagi, one of the proposal's authors.

But with the election looming, many in the government want to spend more. In an interview this month in *O Estado de São Paulo*, a newspaper, Dilma Rousseff, Lula's chief of staff, called the budget-reform plan “rudimentary”—a snub apparently aimed at Mr Palocci. The primary surplus target is safe, Ms Rousseff said, but she was not keen to go beyond it.

In any event, growth should pick up before the election. The central bank has started cutting interest rates and is expected to do so again next week. Lower inflation is boosting consumers' purchasing power. Were it not for the corruption claims, sniping by Ms Rousseff would pose little threat to Mr Palocci.

Rogério Buratti, an aide when the minister was mayor of Riberão Preto, claims that Mr Palocci passed to his party a monthly payment of 50,000 *reais* ($21,000) from a rubbish contractor. The city's former finance chief, who has since died, allegedly arranged an illegal donation of up to $3m to the PT by Cuba's Communist government. According to accounts in *Veja*, a newsweekly, this was stashed in boxes of rum and flown from Brasília to a city near São Paulo. Prosecutors are expected to charge five former city officials with soliciting bribes but say there is no proof of wrongdoing by Mr Palocci. That improves his odds of survival. Brazil must hope that he recovers his prestige.

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Canada

Death throes

Nov 17th 2005 | OTTAWA
From The Economist print edition

Heading for a wintry election

Get article background

FOR the past fortnight, the only question that seemed to matter in Canada's federal politics was whether the voters should be asked to cast judgment on the ailing Liberal minority government in January or a few weeks later. The opposition wants an election as soon as possible, to capitalise on a damning report into government sleaze. Paul Martin, the prime minister, has promised a vote by April, hoping that by then Canadians will savour his government's economic giveaways—including C$39 billion ($33 billion) in tax cuts and extra spending over the next five years announced on November 14th. But the opposition parties seem likely to get their way. They plan to table a no-confidence motion which would see the government fall by the end of the month, and an election by January 16th at the latest.

The sleaze report, by Justice John Gomery, criticised the corrupt mismanagement of a C$250m “sponsorship” scheme set up by Mr Martin's Liberal predecessor, Jean Chrétien, to promote federalism in Quebec. It prompted Jack Layton, the leader of the New Democrats, to withdraw the support of his 18 MPs for the government. The Liberals, now bereft of allies, hold just 133 of the 308 seats in the House of Commons, and thus look doomed to lose a confidence vote.

The opposition's hesitation has been over timing. Mr Layton is reluctant to abort a meeting due later this month between Mr Martin and leaders of First Nations (as Canadians call Indians and Inuit). Stephen Harper, the Conservative leader, does not want to thwart Mr Martin's tax cuts. Both parties support passage of measures to help poor families pay heating bills and members of bankrupt company pension schemes. So they may wait until November 24th to table the confidence motion.

Even so, the election is a gamble for the opposition. Canadians may not take kindly to having their Christmas sandwiched by campaigning. Mr Martin refused to collaborate with Mr Layton's initial plan to move a motion requesting the government to dissolve parliament after the Christmas break on January 4th. Parliamentary rules, and the Liberals' long experience of using them, might just allow the government to cling on. But that now looks unlikely.

In what seemed the first shot in the election campaign, Ralph Goodale, the finance minister, this week turned a statement on the economic outlook into a mini-budget. He unveiled plans for cuts in income and corporate tax totalling C$29 billion (though most would not take effect till 2010), and extra spending on training and higher education. These measures, aimed at raising productivity, steal some of the Conservatives' policy clothes.

One opinion poll briefly placed the Conservatives ahead after the Gomery report. Now the polls suggest that a new election would once again return a minority Liberal administration. The

Conservatives will have to raise their game if they want to turf Mr Martin out.

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Mexico and Venezuela

War of words

Nov 17th 2005 | CARACAS AND MEXICO CITY
From The Economist print edition

A undiplomatic spat with an electoral sub-text

Get article background

THEY resembled rival football fans who having clashed during the game continue to fight outside the stadium. At the 34-country Summit of the Americas earlier this month in Argentina, Hugo Chávez, Venezuela's socialist president, crowed that he had “buried” a plan backed by the United States for a Free Trade Area of the Americas (FTAA). Vicente Fox, his Mexican counterpart, called at the summit for the 29 countries who support the FTAA to go ahead without Venezuela and Mercosur, a four-nation trade block based on Brazil.

Back home, Mr Chávez labelled Mr Fox “a puppy of the empire” who had sold out to the United States. Four days later, on his Sunday television show, he ratcheted up the aggro. Quoting a Venezuelan folksong, he warned Mr Fox: “Don't mess with me, mister, or you'll get scratched.” Not to be outdone, Mr Fox's spokesman fired back that Mexico had been insulted, and demanded an apology on pain of withdrawing its ambassador to Caracas. Mr Chávez got his retaliation in first, recalling his envoy to Mexico on November 14th.

Typical Latin diplomatic *machismo*? Perhaps, but the bluster looks calculated. Mr Chávez's foreign policy, of cheap oil and angry rhetoric, is aimed as much at Latin American voters as governments. He thrives on voicing the anti-Americanism that many of the region's politicians privately feel. He would like nothing more than to turn the spate of elections coming up in the region into referendums on free trade and globalisation.

Mexico, with oil revenues of its own, can safely reject Mr Chávez's petro-diplomacy. Mr Fox, who is a passionate believer in free trade, chose not to remind Mr Chávez that Mexico defied the United States at the UN Security Council over the Iraq war. But Mr Fox has his own electoral agenda. Venezuela's ambassador in Mexico City was a political activist, not a professional diplomat, and close to Andrés Manuel López Obrador, the populist frontrunner in next year's presidential election. All three of the main candidates duly made statements backing Mr Fox. But Mr López Obrador's was distinctly lukewarm. Mr Fox would like nothing more than to paint Mr López Obrador as “another Chávez”—something he denies.

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Canada: Quebec

A snorting victory

Nov 17th 2005 | MONTREAL
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The new face of separatism

EPA

Boisclair out of the wood

WHEN André Boisclair entered the race to lead the separatist Parti Québécois (PQ) in June, he looked like a winner. At 39, he has both youth and experience, having held several ministerial jobs in the provincial government. He has a wide smile and good looks. He is openly gay, which in Quebec is not a disadvantage. To many, he seemed just the man to take a tetchy and increasingly sclerotic party back to government in the province and, perhaps, even to realise its dream of taking Quebec out of Canada.

On November 15th, Mr Boisclair duly defeated Pauline Marois, the province's former deputy premier and his chief rival, by 54% to 31%. Only a few weeks ago, that had looked unlikely, after it emerged that he had repeatedly used cocaine while a minister. Having first refused to address the issue, he then tried to brush it off as “an error of youth”. On the defensive, for the rest of an uninspiring campaign he said very little at great length, and took to dodging interviews.

Mrs Marois, a competent stalwart, was the stronger candidate on paper. A former social worker and teacher, she is the daughter of a mechanic. Mr Boisclair comes from a privileged background, and is a professional politician. But at 56, it seems Mrs Marois was seen as too old. Mr Boisclair may owe his victory to a well-oiled organisation which brought more than 30,000 new members into the PQ, and to his party's hunger for a new generation at the top.

His thumping victory may not silence the mutterings. Mr Boisclair's opponents suggest, variously, that cocaine use may be just the first skeleton to fall out of his closet; that he will take the once social-democratic PQ further to the right; and even that he might be a less than sincere separatist. But in the campaign he stuck closely to the party's platform, pledging more money for health and education and promising another referendum on sovereignty for Quebec “as soon as possible” after the PQ wins power.

Jean Charest, Quebec's Liberal premier, gave no inkling of whom he would prefer as his opponent. But he must be glad the contest took place. Prior to the surprise resignation of Bernard Landry, a former premier, as the PQ's leader, Mr Charest's standing in the polls had plumbed unprecedented depths for a Quebec premier. Mr Charest is now somewhat less unpopular, while Mr Boisclair will have to heal the divisions unleashed by the campaign.

Trinidad & Tobago

Fundamentally gangsterism

Nov 17th 2005 | PORT OF SPAIN
From The Economist print edition

Not Islam, just violent crime

POLICE used an excavator to dig up the floor of an office adjoining a mosque near Port of Spain, Trinidad's capital, in a search for weapons. The dig was fruitless, but elsewhere in the mosque complex they found a gun, a grenade and ammunition. On November 11th they charged the mosque's imam, Yasin Abu Bakr, with firearms offences. He already faced charges of sedition and a retrial for conspiracy to murder. Six other mosques were raided, though nothing more was found.

Rather than Islamic terrorism, Trinidad would seem to be facing a simple crime wave, albeit a worrying one. Mr Bakr is an ex-policeman formerly known as Lennox Phillip. He leads Jamaat al Muslimeen, a group of mainly Afro-Trinidadian converts to Islam. In 1990, they staged an attempted coup, holding the prime minister and parliament at gunpoint. Mr Bakr vigorously denies claims that his followers carry out extortion, kidnapping and drug trafficking. His latest arrest was triggered by an end-of-Ramadan sermon saying that blood might flow if Muslim businesses refused to pay their annual tithe to his mosque.

With a booming oil and natural gas industry, Trinidad & Tobago is more prosperous than much of the English-speaking Caribbean. It is also less violent. But the gap is closing: the murder rate has climbed to one a day. Five small bombs in the capital since July have added to the panic. Some 15,000 joined a march against crime last month. “You have failed us,” newspaper advertisements by civic groups tell the prime minister, Patrick Manning.

Many of the factors behind crime, such as the cocaine trade, violent youth gangs, and poor policing, are common to other Caribbean islands. The government is spending $400m—3% of GDP—on patrol boats, helicopters and coastal radar to staunch the flow of drugs and guns.

The complicating factor is race. Trinidad's population of 1.3m is split roughly equally between the descendants of African slaves and those of Indian indentured labourers. Indo-Trinidadians blame crime on blacks. Their leader, Basdeo Panday, says Mr Manning's government is “part of the crime”. In office until 2001, Mr Panday proposed police reforms. Now he blocks them. On November 14th, politicians from both sides began talks on the crime wave. Trinidadians will doubtless hope these result in more than a blame game.

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Correction: the Gomery inquiry

Nov 17th 2005
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In our report on the Gomery inquiry into political sleaze in Canada ("Martin, the inquiry and the ghosts", November 5th-11th) we stated that the "Quebec Liberal Party" had been ordered to repay C$1.1m it received in kickbacks. We should have made it clear that the party in question is the Quebec wing of the federal Liberal Party and not the Quebec Liberal Party, a provincial organisation. Sorry for any confusion.

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Japan and America

Can I be your friend?

Nov 17th 2005 | TOKYO
From The Economist print edition

Reuters

Worries in Japan over its declining influence in the region make good relations with America all the more important

ON GEORGE BUSH'S swing through North-East Asia—taking in South Korea, host to a regional summit, China and Mongolia—the president stopped off first in Japan, the United States's staunchest ally in the region. In Kyoto on November 16th, Mr Bush talked about his hopes for the extension of the democracy and freedom that he has wished on other parts of the world. Chiefly, Mr Bush urged China to follow the examples of Japan, South Korea and—an example bound to infuriate—Taiwan in embracing “the universal principles” of democracy and freedom.

In particular, the president singled out Japan for praise. The earliest country to adopt democratic norms, Japan was “a pillar of stability and security for the region”. And on the back of trade and investment, ideas about freedom had flowed too, for a “free Japan has helped transform the lives of others in the region”.

If only, many Japanese think, that were true now. Instead, a growing obsession among policy types is how fast Japan is losing power and prestige. “Japan”, says Yukio Okamoto, a former diplomat who now runs a political consultancy, “has no friend and, in the context of China's rise, I'm very concerned about it.”

It is not, in this view, just that Japan's economic influence in the rest of Asia ebbed after the country's economic bubble burst in the early 1990s, allowing China to fill the gap. Rather, the root

of Japan's malaise is friction with its neighbours, chiefly China and South Korea, over historical debates about Japan's wartime guilt. Those who hold this view think that the blame falls fairly evenly. China plays up nationalist, anti-Japanese sentiment at home in an attempt to unify a country whose ruling ideology is bankrupt. And the Japanese government declines to overhaul an educational system that glosses over the country's responsibility for its wartime past. Meanwhile, the prime minister, Junichiro Koizumi, continues to inflame foreign sensitivities by visiting Tokyo's Yasukuni shrine, where the souls of Japan's war dead are enshrined.

These tensions about the past have much to do with rivalry in the future. And a common view now is that the spat has already weakened Japan's position in Asia. One foreign-policy expert argues that Asia is splitting into two: “continental” Asia, where China is fast becoming the hegemon, and “island” Asia, which includes, well, Japan. China lays active claim to Japan's Senkaku islands, and rights to oil and gas fields in the East China Sea are disputed. Last year an incursion by a Chinese submarine into Japanese waters drew a rare Chinese apology. And this summer, China lobbied vigorously against Japan's bid for a permanent seat on the UN Security Council. Such tensions are inevitable, perhaps, given that the alliance with America, conceived in the cold war, is these days mostly about containing China.

In this context, the Japanese are obsessively taking the pulse of the country's relationship with America. On matters of trade, relations are a world away from the frictions of the past two decades over cars, semiconductors and exchange rates. Even that most touchy of subjects, beef, may not be a problem much longer. Now that a panel of worthies has pronounced on the issue, the Japanese government appears to be getting ready to lift a two-year ban on American beef imports following an outbreak of mad-cow disease. And although Japan has shown not a scintilla of zeal for moving the Doha round of trade talks forward, Mr Bush dealt only the mildest of rebukes this week. China has taken over the role of trade ogre from Japan—hardly surprising since its trade surplus with America is almost three times Japan's.

It is over matters of security that Japanese policymakers have their niggles. Currently, America and Japan are deep in discussion between their respective defence and foreign ministries about reshaping their security alliance in a way that will supposedly lead to a “transformation” of America's huge military presence in Japan, requiring fewer, more mobile American troops and greater “burden-sharing” from Japan in the face of future threats. These include terrorism, a nuclear North Korea and, one day perhaps, China making a grab for Japan's near-neighbour, Taiwan. The deliberations, which began in 1996, might come to fruition next spring.

Part of the agreement, it has already been announced, is to move 7,000 American troops from Japan to Guam and possibly Hawaii—provided that they can return quickly to Japan in time of crisis. Yet some Japanese strategists worry about American commitment. “Transformation”, they say, could come to mean mainly saving money. So, says Naoyuki Agawa of Keio University, one potential risk for Japan is that the Americans will “think that technology can compensate for forward deployment”. Another worry, which Mr Bush's assurances in Kyoto have not entirely dispelled, is that the administration, burdened with troubles at home and overstretched in Iraq, might cut back its diplomatic and military efforts in Asia.

Either way, the challenges of a nuclear North Korea and an ascendant China strengthen the hand in foreign-policy circles of those “realists” who argue for a greater “normalisation” of Japanese foreign policy. They include not just Mr Koizumi, but his new foreign minister, Taro Aso, and new chief cabinet secretary, Shinzo Abe. By normalisation, they mean Japan should better protect its interests by taking on a more muscular security role, even if that means amending or at least reinterpreting Japan's pacifist constitution.

That does not mean pursuing an independent policy—at least, not for now. After all, by pushing the constitution to its limits in sending navy refuelling ships and escorts to the Indian Ocean

during the Afghan war in 2001 and keeping them there, and by putting peacekeepers in southern Iraq, Mr Koizumi has gone out of his way to show support for America. With peacekeeping missions in Cambodia and East Timor, Japan has also helped cut America's burden in the region. Hence the praise this week. But should America's commitment to Japan ever waver, a more independent stance to fall back on wouldn't hurt.

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The enigma of SAARC

Summit or trough?

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South Asia's jinxed club

EVEN South Asia's leaders admit that their regional club, the South Asian Association for Regional Co-operation (SAARC), has not achieved very much in its 20-year life. Meeting last weekend in the Bangladeshi capital they all lamented its shortcomings. India's prime minister, Manmohan Singh, said SAARC remained "marginalised at the periphery" of the "emerging Asian resurgence". But Mr Singh and the leaders of Bangladesh, Bhutan, the Maldives, Nepal, Pakistan and Sri Lanka did at least agree that things could change: SAARC, they agreed, would embark on a "decade of implementation".

There are reasons to hope that SAARC can slough off its inertia. In the past, animosity between India and Pakistan has thwarted genuine regional co-operation. Now, however, the two countries are pursuing confidence-building measures, such as expanding trade, of just the sort that SAARC was set up to foster. The biggest step that SAARC has taken in this respect, a regional free-trade area, involving sharp cuts in customs tariffs, is due to come into force on January 1st. It may not mean very much, however. SAARC members are yet to agree which "sensitive" goods are to be excluded, and remain protected by member countries. It will be a long list. In foreign trade, SAARC countries tend to compete more than they complement each other. The smaller economies all fear being swamped by Indian imports.

Similarly, the leaders' commitment to unite in fighting terrorism is likely to remain largely rhetorical, despite the scale of the threat, and the evidence of cross-border links. India believes that the sources of terrorism on its soil are in its neighbours. Bangladesh is accused of harbouring insurgents fighting Indian rule in the north-east of the country, and of tolerating the growth of militant Islamic groups.

Just this week, in the south of Bangladesh, two judges were killed by a bomb, blamed on Islamic extremists. There was also an intermittent 24-hour gunfight in Srinagar, capital of Indian-controlled Kashmir, involving militants India said were from Pakistan, followed the next day by a big explosion. Also this week, Maoist guerrillas in India, who have some contacts with insurgents in Nepal, stormed a prison in the state of Bihar, freed nearly 400 inmates, and killed at least seven.

Fears of terrorism contributed to draconian security at the summit. It saw much of Dhaka, a teeming and congested city, disguised as Pyongyang, with well-swept streets, fairy-lights on the road-dividers and 40,000 security officers guarding the visitors. Many city residents were unimpressed. Daily life was disrupted and, with many markets shut, food prices rose.

Inside its well-protected conference hall, the twice-postponed summit did at least agree to accept Afghanistan as SAARC's eighth member. Even that, however, led to a tussle. Nepal and Pakistan resisted until India accepted their demand that SAARC try to accommodate China as an “observer”. India, which would prefer to see SAARC as a mechanism for extending its dominant regional influence, never likes its neighbours' “playing the China card”. For them, however, SAARC's main purpose may be to contain India, and in that respect, China is a trump.

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South Korea

The kimchi wars

Nov 17th 2005 | SEOUL
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South Korea and China duel over pickled cabbage

Do you want eggs with that?

KOREANS take their kimchi very seriously. A fiery side-dish made of cabbage pickled with plenty of chilli and served with every Korean meal including breakfast, it is the nearest thing to a culinary national treasure. So when South Korea's food-safety watchdog announced last month that parasite eggs had been found in kimchi imported from China, the resulting public revulsion was tinged with indignation at the insult to a national icon. This deepened after officials from the Korea Food and Drug Administration (FDA) speculated that the eggs could have found their way on to the cabbage from human excrement, used as fertiliser.

The skirmish promptly threatened to become a full-scale trade war. China listed ten South Korean food products (including, you guessed it, kimchi) bound for the mainland which they said contained parasite eggs as well. It seemed like tit-for-tat—until South Korea's FDA said it too had discovered similar problems in some local kimchi.

The threat of a trade spat has now receded but this is not the first scare involving food originating from China. Earlier concerns range from the traces of lead found in Chinese-produced kimchi to the discovery of malachite green, a suspected carcinogen, in fishery products imported from the mainland.

But the ballooning volume of trade between China and South Korea means the two neighbours cannot allow disputes over food imports to get out of hand. At stake is around $100 billion-worth of bilateral trade—which matters most to South Korea since China is South Korea's biggest export market. The two countries have now agreed to co-operate on improving monitoring and quarantine procedures for traded food. That way, in future, some of the fierier effects of kimchi may be avoided.

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Medicine in China

Gouged

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Market forces have left patients hurting

"GETTING your appendix out, is a year's farming up the spout," goes the jingle in China, where the collapse of a once widely admired state-subsidised health-care system has left many citizens unable to afford even the most basic treatment. But the government's efforts to tackle the problem by ordering big cuts in medicine prices are winning it few admirers. Demands are growing for far more profound reforms.

While most prices have been freed from state control in the past 15 years, those of prescription medicines remain government-regulated. This has been of little comfort to patients, many of whom were once able to reclaim their expenses but now have to pay themselves. Hospitals, deprived of many of their subsidies, have become highly dependent on medicine sales, income from which now typically accounts for more than 40% of revenue (see chart). After mark-ups by hospitals and distributors (also mainly state-owned), the retail price of medicine can be 20 times higher than it is at the factory gate. A government survey published last year said nearly 30% of city residents recommended for hospitalisation refuse to be admitted, with some 70% citing the cost—though the cost of medicines would only account for part of that.

Medical costs for Chinese patients

	1998	2004
Average total income per hospital, m yuan	26	43
and from medicine sales	*12*	*18*
Total medical expenses per outpatient, yuan	69	114
of which average medicine costs per outpatient	*43*	*62*
Total medical expenses per inpatient, yuan	2,597	4,219
of which average medicine costs per inpatient	*1,279*	*1,872*

Source: Ministry of Health

In the past eight years, China has ordered 17 price reductions affecting a wide variety of prescription drugs. In September the biggest cuts yet were announced. From October 10th, retail prices for 22 types of medicine, comprising more than 200 brands, were to be reduced by an average of 40%.

The numbers were headline grabbing, but have failed to impress patients and have been greeted with scepticism even by the state-controlled media. Not surprisingly, the pharmaceutical industry has been especially vocal. It says the latest move could further damage a sector whose profit margins have already been plummeting thanks to repeated price cuts, rising raw material costs, new quality standards and growing competition. Thinner margins, the drug firms complain, mean less money for developing new products.

In the half-reformed mess that is China's health-care sector, selective price controls are of little use. Without any significant increase in government support (the share of China's total health expenses borne by private individuals has increased from a little over 20% in 1978 to a touch over 58% in 2002), state-run hospitals will continue to regard patients as a primary source of revenue. To circumvent price cuts, doctors simply prescribe more, prescribe medicines not affected by the

cuts, or recommend more (and often unnecessary) tests for which patients have to pay.

The government has tried to introduce greater price competition by relaxing restrictions on the medicine retail sector. But there have been problems: some of the new pharmacies have had their windows smashed by “unknown” attackers. Some hospitals have reportedly put pressure on distributors not to deal with them. Some have found their stocks rapidly bought up by distributors' agents—great for sales, but not for consumers. And in a market awash with fake medicines, the well-established chains are often considered a safer choice, despite their higher prices.

The price cuts this year would have been bigger—an average of 60% had been proposed—were it not for the pharmaceutical industry's pleas. But for consumers, it is unlikely that this would have made much of a difference either. Poorly-paid doctors have every incentive to find ways of keeping the revenue flowing.

In recent months, debate about the need for more thorough-going reform has intensified. The debate has been given extra momentum by an unusually hard-hitting report by a government think-tank early this year. It declared medical reforms to be “basically a failure”. One proposed solution is to concentrate government resources in key hospitals (giving them sufficient funds to avoid the need to gouge patients) and turn the rest over to private control. But there are also some who argue that introducing market forces into the medical system has been the root cause of the current problems. While officials struggle to reach a consensus, the pharmaceutical industry fears there is more meddling with prices to come.

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Nepal

Shooting the messengers

Nov 17th 2005 | KATMANDU
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The media and NGOs are the king's latest targets

Reuters

It says here we're doing fine

MEMBERS of Nepal's royal junta like to boast that without the tiresome restraints of human-rights standards they could defeat a ten-year-old Maoist insurgency in a matter of months. It is not true: they seldom act as though they feel any need for restraint at all. But just in case, King Gyanendra, who consolidated his power with a coup in February, has set about dismantling the once impressive system of public scrutiny in his rapidly shrinking kingdom.

The United Nations reports that in 2004 no fewer than 136 people disappeared while in state custody. According to a recent report by a UN special rapporteur, torture is systematically practised by the security forces. Shailendra Guragain, of the Centre for Victims of Torture (CVICT) in Katmandu, says that although reports of torture have declined since the coup, he believes abuses are more common than ever. Human Rights Watch and Amnesty International agree.

Most female victims are sexually assaulted. For males, the mistreatment is somewhat different. They are forced to eat food that is by any normal standard inedible. They are beaten on the soles of the feet. If the security forces consider someone to be a serious threat, he or she is killed in the barracks.

Bhaikaji Ghimire, a journalist, was arrested after he wrote an article calling for a new constitution, which is also a Maoist demand. He says that during 14 months in army custody he was kept permanently blindfolded and bound, given electric shocks, hung upside down, half-drowned and then beaten unconscious. He and other prisoners were forced to urinate on themselves and others. He was finally released in August this year, six months after being handed over to the civil authorities. Foreign diplomats are privately speculating on the possibility of future International Criminal Court trials.

Against this grim background, two royal ordinances promulgated in the last month have taken aim at what remains of a free society. The first is designed to stifle the media, particularly by banning news on FM radio. Criticism of the royal family is prohibited and other vaguely worded clauses appear to threaten independent reporting of the conflict with the Maoists. A new custodial sentence for disobedient journalists has been introduced.

The second ordinance, promulgated last week, severely restricts the autonomy of the thousands of

NGOs that sprang up during the democratic 1990s. The UN and human-rights groups say its provisions threaten the reporting of abuses. Offending groups are threatened with closure. This might threaten CVICT, says Mr Guragain. “We might be near the top of the list. The human-rights community is on the run, wondering how to survive themselves.”

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Australia

Give me land, lots of land

Nov 17th 2005 | CANBERRA
From The Economist print edition

A controversial new approach to policy on aboriginal land

Get article background

THE Sydney stock exchange usually confines its invited speakers to business figures extolling free-market philosophies. Yet when Noel Pearson, an aboriginal leader from Australia's distressed indigenous community, spoke there last month, the place was packed. Mr Pearson has become the darling of white leaders in Australia who are calling for an end to the era of public welfare that still underpins and, they argue, undermines aboriginal life. His message to the stock exchange—that aborigines would continue to "stagnate in outback ghettos" unless they were drawn into the market economy—is being heard in Canberra, where moves are already under way to give aborigines private title on communal land. It also troubles some of Mr Pearson's fellow aboriginal leaders, who fear their long struggle for land rights is at risk of being overturned.

Mr Pearson, who has a law degree from Sydney University, is an example of a growing number of indigenous people who have broken free of deprived backgrounds. He runs a policy institute in Cape York, his home region, and has the ear, more than any aborigine in Australia, of the reform-minded conservative coalition government led by John Howard. But for every Noel Pearson there are still many among Australia's 450,000 aboriginal people (about 2% of the population) who "stagnate". Education, health standards and employment are shockingly low. Alcohol abuse and petrol sniffing are destroying some communities. Life expectancy for an aborigine is 21 years less than for a white Australian man.

All this has opened up a tough mood in Canberra. Peter Shergold, head of the department of prime minister and cabinet, and Australia's most powerful public servant, said at a recent conference on reconciliation between black and white Australia that there was little to show for federal spending of A$3 billion ($2.2 billion) a year on aboriginal welfare, other than a "strangling embrace of dependency."

The government offered one new approach last month when it announced a deal with the Northern Territory's Labor government to shake up the communal management of aboriginal land by introducing market-driven incentives. At the moment, 40% of the territory's land is run communally by aboriginal land councils. The new plans will allow businesses to take over long-term sub-leases and aborigines themselves to set up private houses in territory townships run by the councils. Amanda Vanstone, the minister for indigenous affairs, argues that the traditional owners now are "asset rich but dirt poor". She thinks the new system will bring security for private investors in aboriginal towns, and that jobs will follow.

While they wait for the jobs to arrive, many aboriginal leaders worry that such bipartisan interventions may simply undermine the land councils and leave aborigines more dependent on handouts than ever. Mr Pearson, though, thinks too much policy of the past 30 years has been about preservation, and that his people now have to reconcile the "legitimate tensions" between

exploiting the land and “living at one with it”. The Northern Territory deal will be the first test of whether such a reformation can work.

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The Gaza strip

Let them breathe

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Despite Israel's withdrawal from Gaza, its Palestinian inhabitants were still suffocating. Now America's secretary of state has helped loosen their straitjacket

AFP

IT TOOK a little more than 48 hours for Condoleezza Rice to resolve something that Israeli and Palestinian officials at all levels—and despite the considerable persuasive powers of James Wolfensohn, the former World Bank president who is now a Middle East peace envoy—had been arguing about for five months. After an all-night negotiating session, a deal was announced on the Rafah border crossing between Gaza and Egypt. With luck, this could lead towards a better, freer life for Palestinians in Gaza—and perhaps even, eventually, for those in the West Bank, the main bit of a hoped-for Palestinian state. And that, in turn, might create the conditions for a push to a final peace settlement.

Israel, which pulled its settlers and troops out of Gaza this summer, had wanted to keep control of Gazans' only border with another country, so it could track and block suspected terrorists. The Palestinian Authority (PA) wanted to run Rafah itself, with a third party—the European Union—supervising. The compromise: Israeli officers in an observation room a few miles away will watch the crossing point through a barrage of closed-circuit cameras, and ask Palestinian colleagues to detain or stop anyone they don't like. If the Palestinians refuse, European officers at the scene will have the final say.

But while the slight concession to its sovereignty is symbolically important to the Palestinian Authority and to Gazans who will once again be able to visit relatives on the other side of the border, what matters more in practical terms are the deal's other parts. The Rafah crossing is merely the least of several bottlenecks to the free movement of goods and people on which Gaza's future will depend.

The economy will rely on agricultural exports. Those and other products will leave not via Rafah but by the Kerem Shalom goods terminal to Egypt, which will stay under Israeli control with PA officers present; and via the Karni crossing, the gateway via Israel for goods both to the West Bank, virtually a separate part of the Palestinian economy since the second *intifada* began in 2000, and to the rest of the world, since Gaza does not yet have a working seaport or airport.

Meanwhile, since Israel is still granting few Palestinians permits to work in Israel and plans to bring the number to zero within a couple of years, free movement of workers between Gaza and the West Bank will also be vital for letting the economy breathe. This week's deal includes a promise to speed up the sluggish work rate at Karni from around 35 trucks a day now to 150 by the end of this year and 400 by the end of next year. Limited bus convoys are to start shuttling between Gaza and the West Bank by mid-December, truck convoys by mid-January.

But this is only a start. A port and airport would give Gaza trade access to the world without going via Israel, which adds a lot to transport costs. Here, however, the situation is the same as before. There is no agreement on the airport; Palestinians can start building a seaport, but with no deal on how to supervise it. Plans for a road or rail link between the West Bank and Gaza, so they can function as one economic unit (essential if they are to function as a Palestinian state in the future) remain shelved; Israel fears that Gaza's main export to the West Bank would be weapons and people to use them.

Finally, even as one part of the Palestinian economy sees relief, the noose tightens on another. The day the deal was signed, Israel's upgraded “passenger terminal” between Jerusalem and Bethlehem came into operation. Travellers between the two cities, which are on opposite sides of

the new barrier separating Israel from the West Bank, now have to get off their buses, unload their luggage and go through an international-border-style passport check. On its first day, delays of over two hours were reported. The city that makes its living from the tourists and pilgrims who come to Jesus's birthplace was just starting to see a recovery after the *intifada*, which had driven over 90% of them away. Stifling its economy will feed resentment and terror, not a peace-friendly atmosphere.

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Israel

Old Labour?

Nov 17th 2005 | TEL AVIV
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Amir Peretz's election as Labour leader has upset but also normalised politics

Reuters

Peretz takes over from Peres

ON A night when speakers including Bill Clinton competed to utter the most moving tribute to Yitzhak Rabin, it was a mark of Amir Peretz's rhetorical skill that his were the words that led the news reports afterwards. Mixing memories ("I am the child who came to Israel 50 years ago"), melodrama ("violence has become rooted among us") and Martin Luther King ("I have a dream [that] our children and the Palestinians' children will play together"), the new Labour leader ended by addressing the fallen prime minister, assassinated ten years ago, on November 12th, by a Jewish extremist: "You were murdered (*nirtsakhta*), but you won (*nitsakhta*)."

A lot of the crowd in Tel Aviv's Rabin Square would, once the sniffly fog of nostalgia had cleared, disagree. According to October's monthly Peace Index poll by Tel Aviv University, only 39% of Jewish Israelis believe that the Oslo accords, which Rabin signed in 1993 with the Palestinian leader, Yasser Arafat, would have led to a final peace deal even if Rabin had lived. But Mr Peretz is hoping to take over Rabin's legacy. Two days earlier he unexpectedly beat Israel's elder statesman and Rabin's erstwhile lieutenant, Shimon Peres, in Labour primaries. This week he and Ariel Sharon, the current prime minister, agreed to hold an early election, in late February or March. Had there been no deal, Mr Peretz said he would have pulled Labour out of the coalition government immediately.

Mr Peretz's victory also means a comforting return to normalcy. Since Mr Sharon's decision to withdraw Israeli settlers and troops from Gaza, Israeli politics has been like a small ecosystem thrown out of kilter by poisonous waste. The right-wing Likud, having tried to swallow what was originally a leftist idea (though Mr Sharon, unlike the left, may have intended the Gaza pullout to be Israel's final withdrawal from occupied territory) was near fission. Labour, with its agenda appropriated by its opponents, was shrivelling up. Pundits had pronounced the party to be at the edge of the grave, into which the 82-year-old Mr Peres, who led it in five elections and never won outright, would surely tip it. Smaller parties on both right and left, which have to win only 2% of the total vote to win seats, had grown fat on the detritus of the two main ones and were throwing their new weight about in Israel's parliament, the Knesset.

Now Likud can go back to being its hawkish self, while Labour can go back to being Labour in a way it has not been for decades. Mr Peretz, chairman of the Histadrut, the main trade-union federation, is a clear-eyed leftist on all fronts. He says he would start final-status talks with the Palestinian Authority (PA) immediately, which Mr Sharon refuses to do until it brings terrorist groups under control, and has proposed a bill to give any Israeli settlement in the West Bank the

same compensation as the Gaza settlers if 60% of its residents agree to be evacuated. He also wants to raise the minimum wage by a third, lower the retirement age, increase government subsidies for pensions, and make various other welfare and tax changes to benefit the poor.

That guarantees him many votes of Israelis who have lost out in the free-market reforms introduced by Mr Sharon's erstwhile finance minister, Binyamin Netanyahu. Moreover, the Moroccan-born Mr Peretz is from a part of society that has always been under-represented in the Israeli elites and harboured a special grudge against Labour—the Sephardim, Jews of mainly Middle Eastern descent. These two bases mean that Labour will take back voters from the parties that had become havens for hard leftists disgusted with Mr Peres (and whose doveish leaders, such as Yossi Beilin, an architect of one of the most recent bilateral peace plans, now look even more marginalised than before), as well as some traditional Likud supporters. Even so, according to opinion polls, Labour will still come up a good ten seats short of Likud in the 120-seat Knesset.

A lot more guesswork

But there are still plenty of unknowns between now and the election. The consequences of the Gaza disengagement—will terror attacks increase or will improved access for Gazans to the outside world bring some calm and stability?—will affect Mr Sharon's rating. How well the Islamist party, Hamas, does in Palestinian elections in January, and how it comports itself afterwards, will also do much to determine Israeli voters' hawkishness. And maybe the scandal surrounding Mr Sharon and his son Omri, which was held in abeyance during the Gaza pullout, will return. The young Sharon this week pleaded guilty to breaking various campaign-finance laws during his father's Likud leadership campaign in 1999. As nobody foresaw Mr Peretz's victory over Mr Peres last week, nobody now dares make a prediction for the showdown to come—or how the result may affect the chances of peace with the Palestinians.

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Iraq

Reaching for the moral low ground

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America's promotion of democracy and human rights looks awkward

Get article background

A VILE discovery and a grave allegation apparently backed up by hideous photographic evidence have made the United States look hypocritical in its promotion of democracy and human rights in the Middle East. The discovery, by America's own troops, was of 173 starving prisoners, some tortured, in a building run by America's allies in Iraq's interior ministry. The grave allegation concerned the use, by American soldiers when they recaptured the rebel town of Fallujah last year, of white phosphorus. Did the Americans flout the rules governing the use of chemical weapons, one reason for ousting Saddam Hussein?

That Iraq's security forces habitually mistreat suspected insurgents is no secret. People in Sunni Arab districts, where the insurgency is rooted, say that they are sometimes arrested en masse by units conducting counter-insurgency sweeps and held in bad conditions and beaten, before being freed with a warning to “stop supporting terrorists”. There are also reports of sophisticated and systematic torture by some Iraqi units and of assassinations by death-squads, often connected to the ministry of interior, which in turn is dominated by the Iran-backed Supreme Council for Islamic Revolution in Iraq (SCIRI), the strongest Shia Arab party in the coalition government. Both American and Iraqi government officials readily concede they are worried by human-rights abuses by Iraqi forces. So far, however, little has been done to rein them in or charge any of them.

This may change. The prime minister, Ibrahim al-Jaafari, who heads the Dawa party, the main Shia rival to SCIRI within the ruling coalition, has promised an internal investigation; Sunni politicians have demanded an international inquiry. The interior minister, Bayan Jaber, a SCIRI man, is a particular bugbear of Sunnis, who say that SCIRI militias are taking revenge on behalf of Iran for the war Mr Hussein unleashed against it from 1980-88.

The scandal over prisoners may sharpen enmity between Dawa and SCIRI, as the two parties stake claims for more powerful cabinet posts in the election run-up. How the Shias address allegations of abuse will strongly influence Sunnis. If the latter believe they have a secure place in a new Iraq, they may start distancing themselves from the insurgency; if they come to believe they are just another persecuted minority, they will still back it.

The white phosphorus scandal is more complicated. The military use of the stuff for illuminating the sky during a night attack or for creating a smokescreen to cover an infantry or tank attack is generally regarded as acceptable. The Pentagon says it was used in those ways during its successful assault on Fallujah late last year.

What is widely considered unacceptable, however, though perhaps not technically illegal, is the use of white phosphorus (“willy pete”, in military lingo) to winkle insurgents out of bunkers and

foxholes by means of “shake and burn”. Moreover, filmshots shown on one of Italy's state-owned TV channels suggested that civilians were horribly burned by the stuff during the siege. If it was deliberately or negligently used in a manner that was bound to cause many civilian casualties, that would be a war crime.

Using white phosphorus as a weapon (as opposed to a smokescreen) will be widely seen as breaching the spirit of a treaty—one that restricts “certain conventional weapons” deemed particularly cruel—to which America is party, even though it hasn't ratified the articles dealing specifically with incendiary materials.

Exactly how the phosphorus was used, what the orders were or from how high up the chain of command they may have come, is not yet known. But it is clear that the Pentagon has some awkward explaining to do—and must come clean if the Americans are to claim the moral high ground in their war against terrorism.

As for the behaviour of the Iraqi government and its security forces, the American conundrum is trickier. On the one hand, the Americans must give the elected government its head, for fear of making it look like a stooge. On the other, they cannot look the other way if human-rights abuses are committed that match those perpetrated by Mr Hussein's regime. The hope is that the emerging Iraqi authorities will seek out those who maltreated the 173 suspects and bring them to account. But this seems unlikely if SCIRI remains the strongest arm of Iraq's government.

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Egypt's general election

A livelier new parliament?

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The ruling party, though still in charge, could face tougher, Islamist, opposition

Get article background

EPA

"ISLAM is the Solution". So say posters that the Muslim Brotherhood, Egypt's most powerful opposition group, has plastered across the country. But as the first of three rounds of polling in a general election wrapped up, one Cairo tabloid took a more sceptical view. "Corruption is the Solution!" read the bold letters on its cover.

Egyptian elections have always been messy, unconvincing affairs, ending in crushing victories for the ruling party. This one, complete with the usual meagre turnout (around 25% overall but below 10% in some districts), is proving no exception. Yet some things are very different. Campaigning has been more heated, and better covered by an increasingly daring press. Judges are meant to oversee the polling, and independent monitors have been allowed for the first time. Ballot boxes are transparent, not opaque as in the past, and voters dip fingers in tell-tale indelible ink. The Muslim Brotherhood, whose candidates have to run as independents since the 77-year-old Islamist party is not legally recognised, has held public rallies unhindered by police harassment. None of its members is in prison, as some were during the elections of 1995 and 2000.

These are all signs of a marked if erratic evolution towards a more open, pluralist system. They follow the holding, in September, of Egypt's first-ever contested presidential election, won handily by the 24-year incumbent, Hosni Mubarak.

Still, ugly old habits persist. Observers report a range of misdemeanours: blatant vote-buying, the busing in of government supporters, intimidation by hired thugs, tampering with electoral rolls and ballot stuffing. Such irregularities grew starker during first-round run-offs for the 133 out of 164 contested seats where no one got more than half the vote. In many of these the ruling National Democratic Party (NDP) faced Brotherhood challengers. Some 18 people were hurt in scattered violence; an NDP branch office in a Cairo slum was torched.

Preliminary results show the Brotherhood capturing 34 seats, a huge increase that consolidates its standing as the NDP's only serious challenger. Brothers held just 15 of the outgoing parliament's 454 seats, compared with almost 400 for the NDP. With two rounds of voting still to come, they could end up controlling a fifth of parliament, an earth-shaking change for Egypt. The secular opposition has fared far worse. Its most prominent candidate, Ayman Nour, who polled second to Mr Mubarak in the presidential election, failed to carry his own central Cairo constituency.

It is already clear that when the last rounds of voting end in early December, Egypt's parliament will be a far livelier institution than in the past. No question, too, that the Brotherhood will be in a better position to press for being recognised as a legal political party: in fact, even NDP leaders have hinted that this is in the offing. But the mix of fraud and low participation will leave Egyptians feeling cheated, once again, of their right to a real voice.

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Iran and nuclear diplomacy

Igor's turn

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Will Russia help, or just get in the way?

Get article background

COULD Russia yet succeed where the European trio of Britain, France and Germany seem to have failed, in getting Iran to give up its plans to enrich uranium? Or has President Vladimir Putin just offered the Iranians a reprieve from the diplomatic pressure that has been building ever since their long-hidden nuclear activities were first discovered three years ago?

In September, the 35-nation board of the International Atomic Energy Agency (IAEA), the UN's nuclear watchdog, formally found Iran “in non-compliance” with nuclear safeguards. The board will meet again next week. Its own statutes say the next step ought to be to refer Iran's transgressions to the UN Security Council. Iran wants to avoid that. But it wants to keep its nuclear programme intact too.

Russia's idea—for Iran to continue converting natural uranium into gas at its restarted conversion plant at Isfahan, but then ship the stuff to Russia for enrichment—is not new. The Europeans, for their part, had hoped for better: to persuade Iran out of the uranium-dabbling business altogether. But in August, Iran's new government abruptly waved away their proffered inducements, restarted work in Isfahan and so brought negotiations to a halt.

When Igor Ivanov, chief of Mr Putin's national security council, took Russia's compromise to Tehran a week ago, he also got a public brush-off. Iran insists it will enrich its own uranium, for fuel for (as yet unbuilt) power reactors, even though almost everyone else suspects it of wanting to use the same technology for bomb-making. But Iran has since signalled that it will give Russia's idea more thought.

Western diplomats are sceptical that Iran intends any compromise. Such a deal would anyway be hard to achieve: there must be cast-iron guarantees that Iran would not gain access to dangerous enrichment skills through a joint venture with Russia. In the past, Russian scientists have quietly helped Iran with dubious technologies—including blueprints for a heavy-water “research” reactor that would be too big for its stated purpose, too small for electricity generation, but about ideal for making plutonium—another bomb ingredient. A number of Russian companies have been penalised under American law for aiding Iran's missile-building too.

By supposedly considering the Russian idea, Iran may simply hope to escape further IAEA censure. A new inspectors' report on November 18th was expected to show that it has been a bit more forthcoming. But inspectors have more questions, especially about potentially militarily useful help Iran received in the past, including from the network run by Pakistan's Abdul Qadeer Khan. America, meanwhile, has again been showing around documents that purport to be Iranian design work on a missile nose-cone of a sort that that could carry a nuclear warhead. Not

reassuring.

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Zimbabwe

Mugabe's self-defeated foes

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Discord is paralysing the opposition and worsening Zimbabweans' plight

AP

A Morganatic marriage with democracy?

WITH senate elections due on November 26th, the Movement for Democratic Change (MDC), Zimbabwe's opposition party, looks bent on self-destruction. On paper, the row is about whether the party should take part in the elections. A faction led by Morgan Tsvangirai, the party's president, says no; another, rallying behind Welshman Ncube, the MDC's secretary-general, says yes. But the rift runs much deeper—and threatens to make the party irrelevant.

The MDC, at its top level, is almost evenly split over the election. Mr Tsvangirai says that President Robert Mugabe has in the past shown no intention of allowing a free and fair poll, so running would legitimise a bogus process. Trade unionists and NGOs also argue that electing senators is hardly a priority, when the country is crippled by a lack of foreign exchange and food, and hundreds of thousands have lost their shelter or business thanks to the government's urban “clean up” operation that started in May, in which thousands of houses were bulldozed.

But the faction behind Mr Ncube retorts that the party should grab any seat it can: a boycott would play into the hands of the ruling ZANU-PF. Matabeleland, an MDC stronghold where security forces killed thousands of Ndebele people in the 1980s, recoils at the idea of having any ZANU senator representing them, so many Ndebele are keen to participate. Tribalism plays a big part in Zimbabwe's politics; Mr Tsvangirai is a Shona (along with four-fifths of his compatriots) while Mr Ncube is an Ndebele. Yet the MDC split is mainly over tactics. Some non-Ndebele MDC branches also favour taking part in the election, to occupy whatever political space they can.

In any event, the dispute runs much deeper than a difference of opinion over the senate election. Mr Tsvangirai's detractors dislike his autocratic leadership. Last month the MDC's national council decided by a slim majority of two votes to run in the election. But Mr Tsvangirai overruled the decision, without the formal authority to do so. He also tried to block the registration of MDC candidates for the poll and expelled the 26 would-be senators who defied his order. His opponents in the MDC lament what they see as a degrading of a party created in 1999 largely to defend democratic principles in contrast to ZANU's dictatorial flouting of the law.

Strategic differences have also paralysed and weakened the MDC, already battered by years of repression. It failed to react decisively after the flawed general election in March or after the subsequent urban destruction, which left hundreds of thousands destitute. Some NGOs and trade unions are now taking the lead in standing up for ordinary Zimbabweans. Last week, the

Zimbabwe Congress of Trade Unions called for a march to protest against economic hardship. But that came to an abrupt end with the arrest of about 200 people, who were held for a few days.

Attempts to mediate between MDC factions, including by South Africa's President Thabo Mbeki, have so far failed. But William Bango, Mr Tsvangirai's spokesman, denies that the party may break up. He points out that MDC members unhappy with Mr Tsvangirai can wait until the party congress in February and try to replace him. Meanwhile, both camps are fighting for control of the party.

Not surprisingly, few Zimbabweans now see light at the end of the tunnel. “The MDC crisis”, says Sydney Masamvu of the International Crisis Group, a Brussels-based think-tank, “is giving Mugabe a blank cheque to continue running down the country while people are crying out for leadership.” Diplomatic pressure, EU sanctions and South Africa's conciliatory approach have all so far failed. Hopes for a third way or the emergence of a new opposition are, at present, wishful thinking.

An open rebellion in ZANU looks unlikely in the short run: those who tried to defy Mr Mugabe's authority last year, including Jonathan Moyo, the government's former spokesman, paid a heavy price. The army and police rank-and-file may also now be suffering from the economic crisis, but the top brass seems loyal to Mr Mugabe. Some in ZANU, along with the central bank's governor, Gideon Gono, and the vice-president, Joyce Mujuru, acknowledge a need for economic and political reform. But Mr Mugabe is loth to listen.

A few months ago, a truly fair election with rigorous international monitoring would probably have seen ZANU swept away. Now, with no real opposition, it is hard to say who speaks for the people.

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German politics

One last shot

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AP

The grand coalition under Angela Merkel at last agrees a programme—but it is one with plenty of faults

DEAD on arrival. That was a common reaction to the programme agreed by Germany's main political parties, which formally creates a grand coalition and will lead to the election of Angela Merkel, leader of the Christian Democrats (CDU), as chancellor next week. A coalition of thieves, the dregs of both parties, economic madness: unions, employers and political pundits rushed to trash the deal.

The screaming and yelling may in fact be a sign that the leaders of the centre-right CDU, its Bavarian sister party, the Christian Social Union (CSU), and the centre-left Social Democrats (SPD) have simply spread the pain equally. And, although the “coalition contract” will be the platform for the new government, it will not be its bible. What counts may not be the content, but that the parties struck a deal at all.

A coalition contract is one of Germany's odd political artefacts, common at both state and federal level. Such contracts are in reality little more than insurance policies against opportunistic behaviour. That is why they often include rules for how to co-operate and resolve conflicts, notes Sabine Kropp, a political scientist at Düsseldorf University. This time, the parties are forming a steering committee that will meet at least once a month. In parliament, the parties have agreed to vote together (though individual deputies may still dissent). In the cabinet, each party has a veto right on essential issues.

The other point about the deal is that its mere negotiation has given the two main parties a chance to get to know each other. Many of the nearly 200 politicians who worked on the contract had hardly met their political opponents before. To foster a rapprochement, negotiating meetings rotated between the headquarters of the CDU and SPD, allowing these arch-rivals to inspect their respective buildings.

Yet none of this explains why the contract for the grand coalition, the first left-right alliance in 36 years, runs to nearly 200 pages. Many are crammed with commonplaces or assertions of policy continuity. Others contain symbolic measures to make the deal more digestible to the parties, such as a “tax for the rich” (an increase in the top income-tax rate from 42% to 45%, for annual incomes above €250,000 for single people and €500,000 for married couples) and a softening of protection against dismissal (an optional probationary period of 24 months instead of today's maximum of six).

Only two chapters read like a genuine manual for a new government. One concerns the overhaul of Germany's federal structure. The federal government and the states are so intertwined that they often block one another, making change of any kind exceedingly hard. The coalition contract proposes to disentangle the two levels of government by reducing the states' veto rights over federal affairs, making up for this by giving the states more powers, notably over education.

The second area of substance concerns the budget deficit. The government wants to find a net €35 billion ($41 billion) of cuts a year, not only to push the deficit below the ceiling of 3% of GDP set by the European Union's stability and growth pact, but also to deliver a “constitutional” budget (Germany's basic law says that new borrowing cannot exceed investment). The plan is to cut some spending and a few subsidies, to sell assets and, above all, to raise taxes—mainly by increasing the value-added tax rate from 16% to 19%.

Economists fret that such measures, particularly the VAT increase, could kill Germany's incipient recovery. That is why the government, before implementing its fiscal measures, plans an “impulse programme” of spending, worth €25 billion over the next four years, including investment in transport, more support for families and extra cash for research and development. The VAT rise will come only in January 2007, perhaps encouraging some spending in advance next year. And one-third of the extra tax revenues will be used to lower the payroll taxes that go into the unemployment-insurance scheme.

The fiscal “consolidation programme” will still be financed more by tax increases than by spending cuts. No party was brave enough to offend its supporters by taking an axe to expenditure. Yet the agreement's bigger weakness is that it does not do enough on Germany's pressing structural problems (except for a decision to raise the retirement age, gradually, from 65 to 67). Health and long-term-care financing, labour-market flexibility and a reform to the tax system have all been postponed.

To be fair, hammering out detailed compromises on these would have been impossible in a few weeks. But the omission raises the question of whether the grand coalition will do more than mere institutional and fiscal repair—before falling apart after two or three years. Much will depend on how its main actors get along: in Germany, coalitions have rarely split over issues, more often over personalities.

On this, at least, the exercise in group dynamics that has been the coalition negotiations seems to have been a success. When Ms Merkel, Franz Müntefering (the designated SPD vice-chancellor), Matthias Platzeck (the new SPD boss) and Edmund Stoiber (the embattled CSU chairman) presented the results to the press, the atmosphere was one of mutual respect, even conviviality. German politics, mused Ms Merkel, to the approving smiles of her colleagues, had lived too long by focusing on partial truth. “Now we are able to look at the whole truth.”

The grand coalition's success or failure will depend on Ms Merkel's ability, starting with her first speech as chancellor on November 30th, to find the right words to set out a convincing mission statement for her government. If Ms Merkel succeeds, and gains a solid standing in the polls, she may even prove able to re-introduce some of the more far-reaching reforms that she had originally wanted.

Some hope that this might signal a new political culture in Germany, one that is less partisan and more focused on solving the country's problems. If that does not happen, the future of the left-right coalition—and of Germany's big parties—may be bleak. As Mr Platzeck puts it, “we've only got one shot left.”

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East Germans in politics

Mr Cuddly faces Ms Cold

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But the opposing leaders have striking similarities

AP

Platzeck grins his way to the top

IN JOURNALISM, three makes a trend. In Germany, two may be enough. Both of the country's big parties are now led by eastern Germans: the Christian Democrats by Angela Merkel, the prospective chancellor, and the Social Democrats by Matthias Platzeck, premier of Brandenburg. Predictably, the tabloids say that *Ossis* are the new *Bossis*. More striking are the similarities between the two.

Both leaders grew up in Brandenburg; both are 51; both are Protestant; both come from a relatively bourgeois background (Ms Merkel's father was a priest, Mr Platzeck's a doctor); both became scientists; and both are divorced, although Ms Merkel has now remarried and Mr Platzeck has three adult daughters. The pair's political lives have also developed in parallel. Both entered politics after the fall of the Berlin Wall (Mr Platzeck as a Green minister in East Germany's last communist government, Ms Merkel as a spokesperson for the first democratic one). Both rose through the ranks and took the helm of their parties more or less by accident. Both are modernisers, but also pragmatists.

Yet Ms Merkel and Mr Platzeck are far from being clones. One big difference is their relationship to power. Ms Merkel is highly ambitious, which has helped her to the top of the male-dominated CDU. Mr Platzeck, in contrast, had to be asked several times to step into federal politics. The pair also differ in their approach to reform. Ms Merkel's model is Britain; Mr Platzeck prefers Scandinavian countries, especially Finland. Ms Merkel believes that painful reforms need to be explained soberly and rationally, which may be why many see her as cold. The SPD leader seems to think that the content and form of radical change must be compensatory: the tougher the reforms, the more reassuring must be discussion of them, fitting his cuddly nature.

When the two leaders presented the coalition agreement to the press, Ms Merkel talked of Germany's “partial decline”; Mr Platzeck said the country was “wonderful” regardless of its problems. This difference may help to explain why Ms Merkel did worse than expected in the election on September 18th, whereas Mr Platzeck was re-elected as premier a year ago even though he was defending the unpopular reforms of the outgoing SPD chancellor, Gerhard Schröder.

Both leaders should get on well in the grand coalition (Mr Platzeck is not formally joining the government, but will be a member of the coalition's steering committee). They already address each other by the familiar *Du*. The differences between them are more likely to come to the fore if, as some expect, they run against each other for chancellor at the next election. Might Mr Cuddly then have the edge over Ms Cold?

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France

The aftermath

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Questions about French society after the recent orgy of rioting

Get article background

ONE measure of the ambient violence is that the French government this week welcomed the burning of 215 cars in one night as “a near-normal situation”. At the peak of the recent riots, over 1,400 vehicles were torched in a single night. A week after the government declared a state of emergency, the Paris suburbs were mostly quiet—although sporadic arson attacks, including on nursery schools, continued elsewhere. The government has rushed through a law prolonging the state of emergency for three months.

As France picks itself up after the riots, hard questions are being asked. Nobody can agree on the riots' underlying causes, which include joblessness, segregation, hard-line policing, discrimination, drug mafias and a lack of parental control—especially, according to one outspoken minister, in polygamous families. But all recognise that something must change. Even President Jacques Chirac, invisible during most of the rioting, acknowledged on television this week that there was a “profound malaise” in France.

In response, a mix of sticks and carrots is now on the table. The state of emergency gives the police powers to arrest and detain suspects, with prison sentences for minors who violate local curfews, few of which have in fact been imposed. Nicolas Sarkozy, the interior minister and head of the ruling UMP party, plans to expel foreigners found guilty of rioting; ten such expulsion orders are under way.

As for carrots, Dominique de Villepin, the prime minister, is working on a *plan banlieue*. One idea, says Thierry Breton, the finance minister, is “to restore economic activity to the suburbs so that they do not become dormitory zones”. Measures to lure businesses to certain areas through tax incentives, in return for obligations to hire locally, will be expanded. Another element, says Gérard Larcher, the jobs minister, will be vocational training for 14-year-olds, to discourage school drop-outs. A voluntary civilian service will be set up for 50,000 school-leavers a year, starting in 2007. Almost all of this, insists Mr Breton, can be financed from existing budgets.

More vexing is a broader question: how can France alter its self-image to reflect its non-white citizens? Officially, the egalitarian, colour-blind republic embraces all. But the reality of segregation and discrimination, especially against those of north and west African origin, has exposed this model's limits. For the first time, there is now a vigorous debate about representation, symbols and role models. In this respect, indeed, the riots could prove to be a turning-point.

Usually, politicians on the left and right dismiss calls for more ethnic representation—on television, in debating chambers, in the police or in boardrooms—as a dangerous step towards

multiculturalism. Few distinguish between a system of quotas and a voluntary approach that relies on peer pressure and self-interest. This week, however, Mr Chirac spoke of the need to recognise "the diversity of French society", adding that companies, unions, political parties and the media should "better reflect the reality of today's France."

Symbolically, this is a big change. How such intentions are put into practice is another matter. The government rejects quotas. But it does want to encourage a voluntary approach. The (private) Institut d'Etudes Politiques (Sciences-Po) in Paris, and ESSEC, a top (also private) business school, both run schemes to recruit bright pupils from poor areas, many of them non-white. Yet many questions remain, not least the refusal to let employers record their progress with race-based statistics.

Will any of this help to rescue the government's reputation? Despite its failures over the riots, the answer may be yes. As Dominique Reynié, a political scientist at Sciences-Po, puts it: "when the French are fearful, they swing to the right. It happened after 1968. Logically, it will happen in the run-up to 2007." Insecurity is likely to dominate ahead of the elections that year. An Ipsos poll this week showed a jump in the approval ratings of both Mr Sarkozy and Mr de Villepin.

It is not only the centre-right that may gain, however. Jean-Marie Le Pen, of the far-right National Front, studiously silent during the worst of the riots, now claims to be the only politician to have foreseen the trouble. "Immigration, explosion of the suburbs: Le Pen said so!" boasts his latest poster. Fears of insecurity and immigration play to the National Front's strength.

Yet Mr Le Pen is not the only politician talking tough. Mr Sarkozy's expulsion orders and his use of the term *racaille* (scum) to describe the rioters have increased his appeal to the authoritarian right. "A majority of National Front voters are volatile, and could vote for Sarkozy," says one of his advisers. The battle promises to be as fierce between the right and the far right, as between the traditional right and left.

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Russian politics

Dogfight 2008

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Has President Vladimir Putin chosen his successor? Maybe

Get article background

LIKE watching dogs fighting under a carpet, was how Churchill described Russian politics. On November 14th the carpet stirred, when President Vladimir Putin announced that Dmitry Medvedev, head of the presidential administration since 2003, was to become first deputy prime minister. Mr Medvedev's old job went to Sergei Sobyanin, previously governor of the oil-producing Tyumen region in Siberia. Sergei Ivanov, Russia's defence minister, keeps his job but will also become a deputy prime minister (making three altogether). Mr Putin also reshuffled his envoys to the country's seven federal districts (one of whom, Sergei Kiriyenko, a former prime minister, was made head of Russia's atomic-energy agency).

The ostensible aim of the reshuffle is to improve co-ordination. Given the paralysis that afflicts decision-making, that is a sensible goal. But, in Moscow, pundits promptly focused on what the appointments meant for 2008—the election year, when Mr Putin is due to step down, unless he changes the constitution to allow himself a third term. That now looks less likely: to many, either Mr Medvedev or Mr Ivanov seems set to be the anointed successor. One of them might replace Mikhail Fradkov, the current prime minister, before taking over the presidency in 2008.

Mr Ivanov has long been a contender, but Mr Medvedev may now be the favourite. Compared with Mr Ivanov (who speaks good English but has the soul of a cold warrior), Mr Medvedev (who has a reputation as a pragmatic administrator), would be more palatable to the West. But Vladimir Ryzhkov, an independent parliamentary deputy, comments gloomily that “Alexander III was better than Ivan the Terrible.” Mr Medvedev is said to have managed the Kremlin's botched meddling in Ukraine last year. His most noted contribution to political debate was a scary interview in which he gave warning that, without political stability, the Russian state could collapse.

Manoeuvring for 2008 is under way: media assets have changed hands, a pro-Kremlin youth group has been set up. But the reshuffle may serve other purposes—such as helping Mr Putin to control the Kremlin's factions. Mr Medvedev and Mr Ivanov share his St Petersburg background. Both seem loyal, as Mr Putin did to his predecessor, Boris Yeltsin. Mr Medvedev is a lawyer; Mr Ivanov is, like the president, an ex-KGB man who is linked to the so-called *siloviki* (but he is on poor terms with Igor Sechin, the *silovik* deputy head of the administration, often thought to be Mr Putin's right-hand man).

Promoting both men simultaneously is a classic, Soviet-style manoeuvre. And in Russia, promotions are not always blessings. Mr Medvedev, who is also chairman of Gazprom, Russia's gas giant, is to oversee big social and infrastructure projects, giving him a chance to raise his profile, but also to tarnish it. Mr Ivanov is tinkering with the armed forces' conscription system, to help it catch more young men: not a goal conducive to popularity. Testing their potential in new positions, says Mr Ryzhkov, is a “primary, Russian-style.”

Other candidates could yet emerge to eclipse both these men—perhaps even Mr Sobyanin, who has some experience of political campaigning. Alternatives include Vladimir Yakunin, whom the president made head of the railroad monopoly earlier this year. Mr Putin's past appointments, such as that of the underwhelming Mr Fradkov, have often surprised.

“It's too early for the succession game,” concludes Vyacheslav Nikonov, a political analyst with Kremlin connections. Mr Putin himself was a virtual unknown, before he became the last of Mr Yeltsin's umpteen prime ministers. He was helped into the presidency by a string of mysterious bombings, a war in Chechnya, and Mr Yeltsin's early retirement. A new, convenient emergency may yet require Mr Putin to stay on. A “managed revolution” is another rumoured possibility. The only outcome that seems entirely outlandish is a genuinely democratic election.

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Belarus's opposition

The denim revolution

Nov 17th 2005 | VILNIUS
From The Economist print edition

The opposition in Belarus finds a new symbol

AFP

THEY may be gimmicks, but they are ingenious ones, all the same. Belarus's opposition, keen to pep up an apathetic public against the country's autocrat, Alexander Lukashenka, has hit on two new ideas. One is to invite citizens to mark the 16th of every month by turning off their lights, and placing a candle in a window.

It's hard to ask people to do much more. Overt protest is risky, and dissidents risk their jobs, freedom or even lives. The first lights-out seemed a big success: supporters said over 100,000 people took part. This week's appeared, by early signs, to be just as popular.

The second idea is to adopt blue denim as the opposition's colour. This started in September when an opposition activist, Mikita Sasim, made a flag of his denim shirt—before being beaten unconscious by police. Belarus's democrats now hope that their search for a catchy image may be over: Ukraine had orange, Georgia chose rose, Kirgizstan adopted the tulip. Denim has the added advantage of having strong counter-cultural echoes: jeans in the Soviet era represented cultural freedom and western consumerism.

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Turkey and the Kurds

Explosive

Nov 17th 2005 | ANKARA
From The Economist print edition

AFP

Perpetrators unknown

A bombing that is blamed on the Turkish security forces

Get article background

WAS it the work of forces keen to sabotage Turkey's bid to join the European Union? Or was it, in the words of a general, just “a local affair”? A bombing allegedly perpetrated by Turkish security forces against a bookshop owned by a Kurdish nationalist in the town of Semdinli has sparked protests across the country's troubled Kurdish south-east. At least five civilians have died in clashes with police, despite pleas for calm by local leaders.

Recep Tayyip Erdogan, the Turkish prime minister, has vowed to get to the bottom of the affair, promising that those responsible for the blast would be punished “no matter who they are”. Yet, although Mr Erdogan says he has the backing of the country's chief of staff, General Hilmi Ozkok, he may back away from a showdown with the army—if that is where the trail of investigation leads.

Suspicions that rogue elements in the security forces were linked to the bombing surfaced when outraged locals pursued and then tried to lynch three men suspected of planting the bomb, which killed one person and wounded over a dozen. The suspects proved to be gendarmerie intelligence agents. Gendarmerie forces have been blamed for previous human-rights abuses, including extra-judicial killings of Kurdish nationalists and the torching of villages in the 1990s, at the height of the insurgency led by PKK rebels.

Yasar Buyukanit, the hawkish land-forces commander, who is tipped to succeed General Ozkok

next year, declared that he knew one of the suspects, who was “a good fellow”. Two of the suspects, a sergeant and a non-commissioned officer, were freed on November 13th, pending trial. The pair claimed they had stopped only to relieve themselves at a local mosque. The third suspect, a PKK rebel turned police informant who has been arrested and charged, said he was buying a lottery ticket at a kiosk nearby.

These claims of innocence have been dismissed by opposition deputies, who are conducting their own investigation. They claim that the suspects' car, parked near the scene of the crime, was registered to the local gendarmerie command and contained weapons and detailed maps of Semdinli, on which the bookshop was marked, as well as a list of 105 potential targets, including the bookshop owner and prominent tribal chiefs.

Some pundits dismiss the notion that the bombing may have been part of a campaign to derail EU membership talks, by raising tensions between Turks and Kurds. It is more likely to have been the work of hotheads within the army who want to intimidate the PKK and its sympathisers.

Others point to parallels with a mysterious incident in 1996, when a car loaded with weapons crashed in the western town of Susurluk. A wanted right-wing hitman, a police chief and his girlfriend all died in the accident, which exposed links between the state and organised crime. A top general refused to testify before a parliamentary commission investigating Susurluk, and several politicians hid behind their parliamentary immunity. The scandal was covered up after the arrests of a handful of minor officials.

To ensure that Semdinli is not swept under the carpet too, Mr Erdogan may have to go there. This would help to quell the violence, as well as enhancing his stature with Turkish citizens and his EU interlocutors. And it would show those who take the law into their own hands that they can no longer do so with impunity.

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Charlemagne

Whipping the commission into shape

Nov 17th 2005
From The Economist print edition

The beleaguered president of the European Commission

JOSÉ MANUEL BARROSO, president of the European Commission, is Europe's whipping boy *du jour*. Jacques Chirac told him to keep out of the European Union constitutional debate because he was so unpopular in France. Before he took office a year ago, the European Parliament made him reshuffle his commission. A recent cover of a Brussels magazine shows him measuring himself against a wall, and falling far short of the mark set by a noted predecessor, Jacques Delors.

There are two theories over why, as the magazine concludes, “Barroso is no Jacques Delors”. One is that it is his own fault. He sucks up to critics (latest example: offering France EU money for riot-torn areas). He has failed to stop commissioners squabbling (an old-fashioned turf war has broken out between the competition and enterprise chiefs). The second theory blames the circumstances. The defeat of the constitution, the euro area's economic troubles, digestion of ten new members; even the sainted Mr Delors would not have risen above such things. Moreover, Mr Barroso was not the first choice of any big country; he was merely the first whom nobody was ready to veto. Without strong support from at least one big country, and preferably two or three, no commission president has much authority.

But does that mean that Mr Barroso is a failure? Next week he will have been in office for exactly a year, time enough for a preliminary judgment. He has not presented much that is radically new. Instead, he has tried to make the commission more modest, more responsive and more business-like. He wants to enforce existing laws, not to make new ones. There will be fewer flights of fancy. So the proper questions are: has he achieved his aims? And are they the right ones?

Mr Barroso has cut a few metres of red tape (the “bonfire of the directives”, as he called it, is more of a fizzle than a blaze). He has introduced some anti-fraud measures and turned down, though not off, the gusher of new laws. But it is too soon to say if he has been successful. Rather, he has prepared the ground, notably by putting allies into the key jobs. When he took over, Mr Barroso palmed off the French commissioner with the second-level portfolio of transport. He refused demands to give the German an over-arching economics portfolio. And he handed two of the three portfolios in which the commission has the greatest power—trade and the single market—to the British and Irish commissioners (ie, to free-market liberals).

Last week, Mr Barroso completed his appointments by reshuffling the commission's top civil servants (who have sometimes been more powerful than their nominal bosses). The reshuffle has been widely portrayed as a fresh Anglo-Saxon triumph, because a liberal Irishwoman, Catherine Day, got the top job of secretary-general, and a French survivor of the Delors era, François Lamoureux, was sidelined. In fact, the ideological balance within the commission may not change all that much (another Frenchman takes over agriculture and an Austrian trade unionist becomes director-general for enterprise and industry). It should also be conceded that Mr Barroso has not managed to generate much enthusiasm among interest groups, notably big business, that ought to be his natural supporters. But he has at least imposed some authority over the commission.

The more important question is whether he has the right aims. He probably does, if only because any others might have made the EU's identity crisis even worse. Mr Barroso really wants to make the commission more like the EU's civil service. Under Mr Delors, it was more of a super member-state, the one that (in theory) looked after the interests of Europe as a whole. The commission has always been the policy initiator of European integration, but the French and Dutch referendums in the spring have called a halt to that entire process.

The political alliances that underpinned the commission's old role of driver of integration have also changed. Mr Delors depended not only on a close Franco-German alliance, but also on the self-confidence of these countries, which are both now in a defensive funk. In so far as Mr Barroso has a sponsor among the big countries, it is Britain. But Tony Blair has not provided his ally with anything like the support that François Mitterrand and Helmut Kohl gave to Mr Delors.

His modest aims will also prove right if he can sort out the mess that, a decade on, still haunts the EU bureaucracy. In pursuit of ever closer union, Mr Delors and his staff set up ad hoc groups, bypassed chains of command and outsourced tasks to whoever could get them done. The result was lack of control, no accountability—and corruption. The problems remain. The Court of Auditors has just refused to give the EU's accounts its approval, for the 11th year in a row. In one sense, Mr Barroso is still trying to rein in a bureaucracy that got out of control.

In the Berlaymont's bowels

Yet he may find that simple-sounding task quite a challenge. Deep within the Berlaymont building, Eurocrats' reflexes remain what they always were: Franco-German. Many in the commission believe that their power stems from that alliance. Without it, they feel stranded. The battle between Mr Barroso and the Eurocrats may be just beginning. The very notion that the commission can turn into a model bureaucracy may be implausible. Brussels has been a byword for inefficiency and inertia for far too long. It will take a miracle, not a single presidency, to change that image, even if Mr Barroso's broader agenda succeeds.

And because of that, it is far from certain that Mr Barroso will have enough time to solve the commission's biggest problem: its lack of legitimacy. Ironically, the Delors commission was seen as a success even though its performance may have undermined its successors. The danger for Mr Barroso is that he will be seen as unsuccessful, even if his commission lays the foundation of

greater legitimacy for those still to come.

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Climate change

Hot under the collar

Nov 17th 2005
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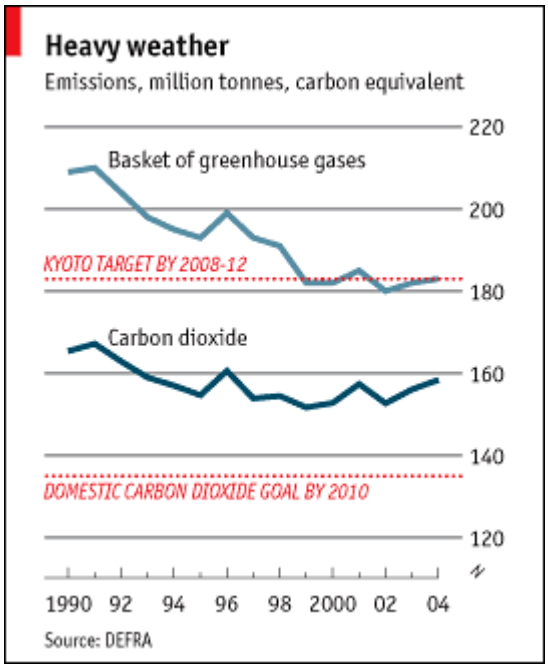
Britain has had an easy ride on cutting carbon emissions. Not any more



ONE of the Labour Party's many transformations during Tony Blair's leadership was its conversion to environmentalism. A party with its roots in dirty, heavy industry such as coal-mines and blast-furnaces presented itself as an eco-friendly guardian of the planet's future. The most visible form of this was a commitment, in Labour's 1997 manifesto, to cut 20% off British greenhouse-gas emissions by 2010 compared with their 1990 levels. That went above and beyond the 12.5% required by the Kyoto treaty.

This pledge has been repeated as recently as the last election, but the promises have not stood up to reality. Since 1999, British greenhouse-gas emissions have been broadly unchanged. Disillusionment among environmentalists has gradually given way to an anger which found an attention-grabbing means of expression this week, when Greenpeace dumped a lorry-load of coal outside Downing Street. Stephen Tindale, its boss and a former government adviser, accused Mr Blair of empty rhetoric. The WWF went further, claiming that Mr Blair's policies sounded identical to those of George Bush—the eco-worrier's nastiest insult.

So far, Britain has had an easy ride cutting emissions. The rhythm of technological change and relatively painless policy choices have helped put the country on course to meet its Kyoto obligations. In an attempt to rescue the 20% target, ministers have ordered a policy review, which the *Guardian* obtained this week. The review, to be formally published next year, acknowledged that cutting emissions further will be hard.

Power generation is a good example of why. The government's “flagship policy” on climate change has been to offer subsidies to renewable energy. But much of the cut in emissions predates these handouts and owed more to economy than ecology. Newly liberalised electricity firms replaced old, dirty coal-fired power plants with new, clean gas-fired ones in the “dash for gas” in the 1990s because they were cheaper, not because they were cleaner—that was just a happy coincidence. Indeed, part of the reason for modest emissions rises in the past two years is that high gas prices have prompted some companies to switch back to coal.

More gas power plants (and possibly nuclear ones, too) will eventually be built, but not fast enough to rescue the government from its difficulties. Renewables will help, too, but wind farms are often unpopular with local residents, and with the public finances looking sickly, call for an

extravagant subsidy (forecast to reach £1 billion—$1.72 billion—a year by 2010).

Industry already bears the brunt of Britain's climate commitments through the Climate Change Levy, a tax on energy use, and the European Emissions Trading Scheme (ETS), which allocates tradable emissions limits for firms. Introducing new restrictions will be politically difficult. Ministers tacitly acknowledged as much last year, when they bowed to industry pressure to seek a rise in Britain's European emissions allowances.

So, too, in transport, where emissions have risen by 10% since 1990 and which now accounts for a quarter of Britain's greenhouse-gas output. Most of the emissions come from road transport, but motorists face only weak incentives to buy carbon-friendly cars (the difference in road tax between the most and least efficient is only £115 a year). Labour has been scared of the road lobby ever since the fuel protests of 2000, which brought the country to a halt and ended the policy of annual fuel-tax rises—the one measure that might curb emissions. Ministers says they want to bring airlines into the ETS, but that would require Europe-wide co-operation.

Many greens pin their hopes on energy efficiency. Many people have already installed insulation and double-glazing, but more is to be done. Higher efficiency standards for new buildings will help, but will take many decades to affect the overall efficiency of Britain's dwellings and workplaces. Other savings from conservation tend to call for new habits, which William Blyth, an environmental analyst at Chatham House, reckons will make them difficult to realise. “People dislike the idea of changing their behaviour for an abstract idea,” he says. “They like having the problem taken out of their hands.” Others worry about the “rebound effect”—that, while conservation saves money, the gains are spent on such polluting activities as, say, holidaying abroad, which offset much of the environmental benefit.

Mr Blair's domestic reputation is not the only thing at stake. He has been using Britain's presidency of the G8 rich nations' club to harangue other global leaders on the need for a successor treaty to Kyoto. Preliminary discussions are due to begin later this month at a summit in Montreal. If Mr Blair cannot present a plausible plan to meet his domestic goals, he will be robbed of international credibility.

That would be a blow for the prime minister, who is keen to play a part in the delicate negotiations for a new treaty. Besides, a lack of progress in the talks (which could outlast Mr Blair's premiership) would make it harder for him to impose the policies he needs to defend his domestic targets. Businesses will object to strict regulations without the prospect of their international competitors in America, China and India knuckling under. And while the public claims to be worried about climate change, its concern runs only so deep. A recent poll from the Stockholm Network, a group of European think-tanks, found that while 94% of Britons thought climate change was important, 62% put economic growth before carbon reduction. In other words, a unilateral carbon-reduction policy is unworkable.

A draft document is not the same thing as government policy, but the signs are not encouraging. The review has 58 separate recommendations, making it seem more a set of quick fixes than a coherent policy. These range from the sensible, but difficult (tightening ETS allocations) to gimmicks (stricter enforcement of speed limits on motorways). The draft admits that, even if all of them are adopted, Britain may still miss its target. Mr Blair has been an evangelist on climate change. Now comes the big test of his resolve.

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Pensions

We have a plan

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But will Labour have the guts to push it through?

THE government-appointed Pensions Commission is due to issue its long-awaited recommendations on pension reform on November 30th. But already this week, details emerged on its three main proposals.

The commission was set up in 2002—amid alarm at employers' closure of final-salary schemes to new members—to see if Britain could still rely on voluntary private pensions. In the event, the commission, chaired by Adair Turner, concluded it could not look at one part of the system without also examining the state's part in the tangled mess.

First, the commission will say that the state-pension age must rise from 65 to 67. It is already due to rise for women from 60 to 65 between 2010 and 2020, so the change would be phased in after 2020. As important, the increase will not be a one-off change. After reaching 67, the state-pension age will continue to rise along with life expectancy.

The recommendation, revealed in the *Financial Times*, injects a long-overdue dose of realism into the pensions debate. The present age of 65 was set in 1925 when life expectancy was far lower. Yet as recently as December 2002, the government ruled out an increase.

Second, the commission will not recommend compulsory private-pension provision. Instead it will propose a national pension-savings plan into which new employees would be automatically enrolled. Crucially, they would retain the right to opt out of the scheme.

Britain would thus follow the example of New Zealand, which is already introducing the KiwiSaver plan along similar lines; no doubt the idea will be instantly and hideously dubbed BritSaver. Contributions will be collected by the tax authorities and invested by fund managers chosen by the savers. The default contribution in New Zealand is 4% of salary. This idea is a triumph for behavioural economics, which shows how choices are shaped by the way they are framed. American experience with employer plans has shown that automatic enrolment can lead to a big increase in participation.

Third, the commission will say that state provision should be more generous. This will cost money, but savings will come from the higher state-pension age. As important, the state should simplify what it provides. This now consists of a baffling mix of two benefits, based on national-insurance contributions, and the means-tested pension credit.

The government has been desultory about pension reform. The question now is whether it will have the nerve to push these changes through. Its recent climbdown to public-sector workers over raising their retirement age from 60 to 65 does not augur well.

Anglicanism

Queen and country

Nov 17th 2005
From The Economist print edition

England's soft theocracy, faced with the harder kind, cannot please everyone

THE makers of Anglicanism did not mince their words. By the Act of Supremacy, signed in 1534, King Henry VIII and his successors asserted full power and authority to "visit, repress, redress, record, order, correct, restrain and amend" any "errors, heresies, abuses, offences, contempts and enormities" in the nation's religious life. And if that meant burning the errant at the stake, so be it.

Nobody would put things like that today. But England's distinctive theocracy, with its ermine and purple robes, was on noble display this week when Queen Elizabeth opened a newly elected synod—an ecclesiastical "parliament" whose five-year term may see a split over homosexuality in worldwide Anglicanism.

Like so many other British institutions, the Church and its ties to the state have survived so far by managing to mutate and accommodate dissent. The synod's first debate, on terror, brought reminders of what it is to be a "broad church". One lay speaker urged forgiveness for all—including would-be bombers, while a bishop asserted that as a last resort, a "shoot-to-kill" policy might be right.

So finely balanced are most pronouncements by today's Anglican leaders that it caused a certain *frisson* when their royal overlord affirmed the primacy of Christian teaching in stronger-than-usual terms. "At the heart of our faith stands the conviction that all people...can find lasting significance and purpose in the Gospel of Jesus Christ," declared the queen.

Such robust statements are rare these days. Anglicanism's culture of compromise helps explain why England's "soft theocracy" enjoys a degree of assent from people of other faiths or none. A poll for BBC radio this month found that 75% of Britons want the country to retain "Christian values"—a view shared by 69% of Jews; nearly 50% of Muslims, Sikhs and Hindus; and 44% of those with no faith.

But not everyone likes his theocracy soft. Ayman al-Zawahiri, a leader of the al-Qaeda network, has called the queen "one of the severest enemies of Islam" and deplored British Muslims who "work for the pleasure of Elizabeth, the head of the Church of England." However broad your church, some "contempts and enormities" are impossible to accommodate.

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City skyscrapers

A tall storey

Nov 17th 2005
From The Economist print edition

London reaches for the stars—and prepares for the next property boom

WHEN plans for the “Shard of Glass”, near London Bridge, were unveiled in 2000, English Heritage condemned the tower as “Europe's tallest building and London's greatest folly”. Since then, the disputes have come thick and fast. Only after a public enquiry did Renzo Piano's skyscraper win planning consent, at the end of 2003. The scheme is plagued by legal wrangles about its ownership. And, most emblematic of all, is the fuss over the four metres at the building's spire.

London and its Shard

The Sellar Property Group, a backer of the 310 metre (1,016 feet) Shard, insists the pointy bits at the top serve as ventilation. Rubbish, say the people behind the rival 63-storey Bishopsgate Tower. Because they are a “mast”, and thus not part of the building at all, the European title belongs to their own 307.25 metre “Helter-Skelter”.

Such wrangles are everything in a city that is fast becoming recognised for its spectacular schemes to put up new towers. Since the last glass tile was stuck on Swiss Re's “Erotic Gherkin” in late 2003, at least six high-rise towers containing at least 375,000 square metres of office space have been proposed for the City—though, in a market distinctly lacking tenants, it is hard to say precisely when they will be built.

Proposals have come from all sides, including the two largest British property firms, Land Securities and British Land. If built, the Helter-Skelter will be 72.25 metres higher than One Canada Square in Canary Wharf and twice the height of the BT Telecom Tower. “Trophy architects” are thick on the ground—a novelty for staid London architecture. Lord Foster, Lord Rogers and Jean Nouvel, a French visionary, are busy. So is Rafael Vinoly, a Uruguayan finalist in New York's Ground Zero project.

Why the rush of high-rise extravagance? Partly because tenants will pay more for a boardroom with a view. But anxiety matters, too. The Corporation of London, the Square Mile's local authority, wants more tall buildings because it fears competition from rival financial districts—and not just Frankfurt and Paris. Canary Wharf in Docklands has poached several big banks from the City in the past decade. The Corporation is determined to prevent that from happening again.

Although the demand for office space is not strong just now, it wants to be ready with a list of approved skyscrapers when the market eventually picks up. It has an ally in Ken Livingstone, London's mayor, who thinks tall buildings add to the capital's prestige.

Yet, in streets once trod by Dick Whittington and his cat, all that history can get in the way. English Heritage is reluctant to lose listed buildings, conservation areas and views of St Paul's Cathedral. Hence the world-class architecture. It is easier to see off heritage groups if a listed building is replaced by a scheme from Lord Rogers.

The conservationists are fighting back, saying tall buildings—however prestigious—will block views of St Paul's Cathedral and Westminster Abbey. Mr Livingstone has proposed adding 16 city vistas to the ten protected today. But conservationists complain that the listed views will be narrower. Adam Wilkinson, of SAVE Britain's Heritage, says: “The guidelines are cheeky really...[new plans] will alter their historic settings through sheer height.”

Another difficulty for the tower crowd is that many of their plans are so “iconic” as to be impractical. Swiss Re's Gherkin (designed by Lord Foster) has been slow to find tenants because its environmentally-friendly ventilation system and cigar-like outline produce an awkward shape.

The mayor and the city authorities may be trying too hard. After losing ground to Canary Wharf by being conservative, central London is becoming ultra-modern in its architecture. If the towers aren't built, the area will suffer. If they aren't interesting, they won't win planning permission. But if the buildings become too interesting, they risk offending conservationists and deterring tenants.

Last month saw a new twist in the Helter-Skelter saga. The British Airports Authority and London City airport complained that the tower would endanger flight paths. The skyscraper may have to lose at least its top 20m. That would leave the Shard as the undisputed tallest tower in Europe—if it ever gets built.

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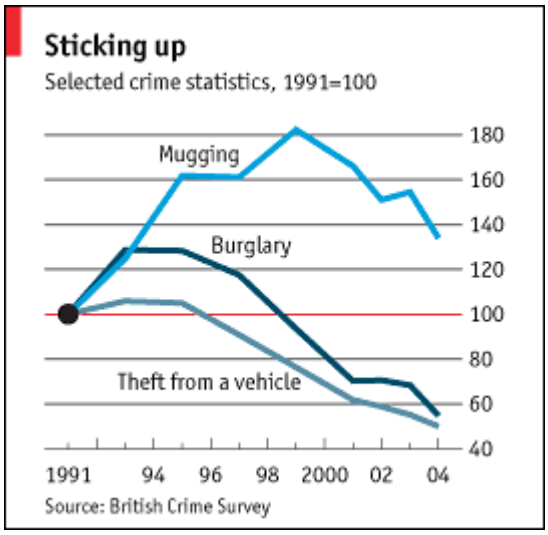
Crime

A mug's game

Nov 17th 2005
From The Economist print edition

The enduring popularity of street crime

Get article background



PERUSING the *Times* in 1844, Friedrich Engels was horrified to note that, in a single day, London suffered a theft, an attack on the police, an abandonment and a poisoning. "Social war is under full headway," commented Engels, who blamed the crime wave on the growing proletariat. It is hard to imagine what the gloomy social scientist would have made of the fact that, 160 years later, London's police would be recording 2,500 crimes per day.

Most striking is the rise of mugging. In 1993 there were 323,000 robberies in England and Wales, according to the British Crime Survey—the highest since the survey began in 1981. That is not so surprising: there was a recession on. But the muggers carried on during the late-1990s boom, even as their house- and car-breaking colleagues hung up their sacks (see chart). Despite a buoyant economy, close attention from police and politicians and a shrinking proletariat, there were 347,000 muggings last year. The national numbers have dropped since 1999 but London still suffers: in September, robberies in London were up 21% on the same month in 2004.

Why? One reason, says Simon Pountain, who polices the London borough of Hackney, is that "there are more desirable items walking around on the street." Technology and prosperity means more mobile phones—the sole item taken in more than a third of street robberies—and, recently, more MP3 players. Meanwhile, many of the things people keep in their houses and cars have become less valuable. Why break into a house to steal a DVD player when you can snatch an iPod worth two or three times as much?

As a criminal enterprise, mugging has unusually low barriers to entry. It requires less skill than burglary or car theft, and fewer connections and less financial savvy than drug dealing. Like many unskilled professions, it has traditionally been dominated by immigrants. The image of the black mugger in the 1980s was a caricature, but an accurate one.

Recently, though, the "Afro-Caribbean connection" has weakened, according to Ian Delbarre of the Metropolitan Police. A recent study of the capital's robbers found that ethnic patterns depended mainly on social and environmental factors. Black men are still over-represented among muggers, but that seems to be because they are poor, and, more important, because many of them live in neighbourhoods that have gentrified. Robbery thrives where wealth and poverty mix.

These days, muggers are distinguished by their youth. Home Office research in 2003 showed that 71% of muggers were under the age of 21, while 17% were under 16. Part of the explanation, police officers reckon, is that mugging is a short step from many of the things that teenage louts get up to anyway, like playground bullying and menacing people who stray into their neighbourhoods. But teenagers have not just swelled the ranks of muggers; they have also changed the nature of the crime.

Today's muggers are more discerning in their choice of victims and goods. Three-quarters of their victims are men, which is novel: a large study of street robbery in 1987 found that 57% of victims were women. Young muggers look down on drug-addled practitioners, generally in their early 20s, who go after softer targets and will steal anything. Simon Holdaway, who has interviewed young robbers in Sheffield, finds that they occasionally beat up their elders.

“Many of these robbers are funding a lifestyle, not a drug habit,” says Mr Pountain. Although poor, they are driven not by need but by aspiration and desire—for the latest gadget, or for something that can be used to finance its purchase. Engels might have regarded that as a sign of progress.

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Interest rates

Holding operation

Nov 17th 2005
From The Economist print edition

The Bank is in no hurry to raise the price of money

Get article background

INFLATION, long quiescent, has staged a comeback over the past year. The consumer-prices index (CPI) rose by 2.5% in the 12 months to September, up from 1.1% a year earlier. The upsurge, spurred by rising oil prices, raised fears that the inflationary genie was out of the bottle again.

But the inflation scare looks overdone, going by this week's official figures. Helped by a fall in petrol prices, CPI inflation slackened in October, to 2.3%. Further down the supply chain, a decline in crude-oil prices has also eased the cost pressures on manufacturing. Factories' input prices for fuels and materials rose by 7.7% in the year to October, down from 14.2% in July.

The nightmare for the Bank of England—charged with meeting the government's CPI-inflation target of 2%—would be if the oil-price shock generated a price-pay spiral. But the latest figures show that these “second-round effects”, so damaging in the 1970s and early 1980s, have this time been conspicuous by their absence. Average-earnings growth has slowed from 4.2% a year to 4.1%, comfortably below the 4.5% rate broadly consistent with keeping inflation at 2%.

The economy has stayed weak since August, when the Bank's monetary-policy committee (MPC) lowered the base rate from 4.75% to 4.5%. GDP grew at a below-trend rate of 0.4% in the third quarter, and was only 1.6% higher than in the same period a year before.

Troubled businesses and retailers might have expected that the encouraging news on inflation would open the door to another interest-rate cut. But on November 16th, the Bank quashed such hopes. In its quarterly *Inflation Report* it signalled that the door remains under lock and key. Based on market expectations of broadly unchanged rates, the MPC's central projection is that inflation will be close to the 2% target in two years' time (see chart). Since that is the period it takes for interest-rate changes to work their way fully through to inflation, the forecast implies that the Bank will keep rates at 4.5%.

One reason for the MPC's reluctance to bring down rates again is that it is sceptical about the scale of the economic slowdown revealed in the national accounts. Estimates based on business surveys have consistently pointed to stronger service-sector growth over the past year or so than the

official figures.

The MPC is also expecting a healthy recovery in GDP growth. It thinks that the squeeze on the consumer, caused by rising taxes and debt-servicing charges, is abating. This should pave the way to a pick-up in consumer-spending growth. The economy should also be bolstered by rising business investment and an improvement in Britain's trading performance.

The MPC's growth forecast looks rather optimistic. But even if it is too bullish, there is another reason why the Bank is reluctant to lower rates. It is concerned about the impact of the oil-price shock on the supply side of the economy. The risk is that higher oil prices will reduce capacity growth, for example by making some capital equipment unprofitable to use. Most important, the Bank wants to avoid any increase in inflationary expectations. The best way to achieve this is to stick to a tough line on interest rates.

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Philanthropy

Virtue's eBay

Nov 17th 2005
From The Economist print edition

Businesslike approaches to giving are shaking up a cosy charity sector

IF BRITAIN'S charities operated like companies in a well functioning market, where the successful expanded and the weak either were swallowed up or went to the wall, then merger fever would have taken hold some time ago. That's because England and Wales have an unusually large number of charities (at least by European standards). Thanks to a tradition created by Victorians and Edwardians such as Joseph Rowntree, some 167,000 charities with incomes of more than £1,000 a year (the threshold at which charities must register with the Charity Commission) and probably many thousands of smaller ones, now exist. Most are healthy, but many are not: 19,000 have failed to file any accounts with the commission for the past three years and about the same number seem to have no trustees.

At the moment it is hard for donors or anyone else to assess the finances, activities and outputs of different charities. This has made Britain's voluntary sector “a cosy world, where nobody has been able to compare information,” according to one uncharitable researcher. That should change this week, when all this information is made freely available on www.guidestar.org.uk, a website. Not every charity is delighted at the prospect.

Les Hems, director of research and development for GuideStar UK, says that the site initially met with hostility from the finance directors of several charities. Charities tend to dislike comparisons of their fundraising costs, because they vary so widely. Where giving is concerned, the theatrical maxim is reversed: those who work with children or animals do very nicely. Children's charities come second only to medical-research charities in winning a share of national giving. And figures from the National Council for Voluntary Organisations suggest that the great British public prefers animals to old people by a ratio of 3:2. Charities working with HIV sufferers, by contrast, had high fundraising costs, until they managed to recruit celebrities to the cause. Now those working with unpopular groups, such as asylum-seekers, have the highest fundraising costs.

Donors, however, typically want as much of their cash as possible to go towards doing good, rather than into paying the salaries of fundraisers. They may also be reluctant to finance the advertising campaigns of large charities with well-known brands once they can find at the click of a mouse a dozen smaller ones doing good works in their area. Experience in America, which has its own version of GuideStar, shows how this can happen. After hurricanes Katrina and Rita, the website recorded a fivefold increase in visitors searching for charities in the affected areas.

While GuideStar should bring more scrutiny to the workings of charities, more attention is also being paid to measuring their outputs. Here the pioneers are New Philanthropy Capital (NPC), a charity run by a group of former finance professionals, which models its reports into charitable sectors on the work of equity analysts.

Though NPC stops short of issuing “sell” recommendations on charities, it does highlight ones that

it thinks make particularly good use of their money. They also encourage charities to think about what they do in terms of returns on a donor's investment. Martin Brookes, a former economist at Goldman Sachs, gives the example of Age Concern Swansea, a charity that helps poor pensioners to fill out their benefit slips. NPC worked out that each pound spent by the charity helped secure £26 in benefits that would otherwise have gone unpaid, a return on investment of 2,500%. Mr Brookes points out that such returns make a compelling case for a donor. But there will be losers, as well as winners, from this increased rigour. One day it may even add up to a real market.

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Bagehot

A glimpse into the abyss

Nov 17th 2005
From The Economist print edition

The Tories should not bet on Labour self-destructing just yet

Get article background

DAVID CAMERON must scarcely believe his good fortune. In a week when he became almost certain to be the next leader of the Conservative Party—polls of party members suggest he leads David Davis by two to one and both William Hague, a former leader, and Liam Fox, the third-placed leadership candidate, have joined his camp—a large part of the Labour Party appeared to take leave of its senses. If Mr Cameron proves to be lucky as well as affable and decent, he may yet realise the soaring hopes of his growing band of supporters.

However, after one House of Commons defeat on the slightly odd question of precisely how many days the police should be allowed to detain terror suspects without charge, Mr Cameron would be foolish to put too much faith in the more apocalyptic analyses of the government's plight.

According to these, a lethal cocktail has formed out of the confrontational approach of the prime minister towards Labour rebels, combined with his waning authority and the hostility of many Labour MPs to his agenda of public-service reform. If Tony Blair were to lose a couple of big votes on policies that were central to Labour's election manifesto, the argument goes, not only would he be finished, but Gordon Brown would take over the leadership of a party that had lost the will to govern. Gleeful Tories see signs of Labour becoming possessed by the kind of death-wish that destroyed their own party in the early 1990s.

All of this could yet come to pass, but the Tories shouldn't count on it. In the first place, the

parallels between what happened 15 years ago and what Labour is going through now don't stretch far. Margaret Thatcher was forced out because she refused to reconsider a suicidally unpopular policy, the poll tax, that was responsible for the Conservatives trailing Labour by 16 points in the polls. Most of the cabinet thought it was folly and MPs feared for their seats. By contrast, Mr Blair's policies on extending choice in schools and health care are popular with voters, the cabinet is united and the government is eight points ahead of the Tories in the most recent opinion poll.

Having got rid of Mrs Thatcher, the Tories were so riven by guilt and recrimination that the party lapsed into destructive self-loathing. Even among Mr Blair's detractors, only the loopiest think that speeding up by a year or so the departure of a leader who has already said he is going is worth the anguish—especially when they know that few of the things they dislike about New Labour will change when Gordon Brown takes over. Having seen at close hand how the Tories passed in only five years from electoral dominance to impotence, the vast majority of Labour MPs are loth to go down the same road.

If most of the party's MPs peered into the abyss this week and didn't much like what they saw, there are signs that Mr Blair also wants to avoid unnecessary conflict. Detention for up to 90 days was something you were either for or against. Public-service reform doesn't have the same all-or-nothing quality. It is complex, evolutionary and founded on a balance between what would be desirable in an ideal world and what is achievable in the world as it is.

Mr Blair may have said that he now regrets not having already gone further and faster, but he also knows that the best does not have to be the enemy of the slightly better. The controversial education White Paper is a case in point. Labour's favourite think-tank, the IPPR, has concluded that because it is more permissive than prescriptive, the changes stemming from it will once again be slower and less dramatic than Mr Blair claims.

And it's not as if the prime minister hasn't been prepared to seek compromise in the past, when his majority was a lot healthier and his own political longevity less circumscribed. In the face of objections from Mr Brown, he opted for less independence for foundation hospitals than he wanted and he was willing to make concessions to push through university tuition fees. A particularly valuable one for the policy's critics was a restoration of the grant system for poorer students: MPs could boast they had won something important and improved the legislation.

Blair's bidding

The prime minister indicated this week that he would spend the next two or three months discussing and explaining the details of his education, health and welfare reforms with his MPs. Cabinet ministers have been encouraged to meet sceptics, discover what it is precisely they object to in the forthcoming legislation and to see if they can find common ground.

For example, MPs are worried that greater autonomy for schools will mean more backdoor selection and a worse deal for pupils from poor backgrounds. They would like to make today's code on “fair admissions” legally enforceable. Mr Blair might see that as heavy-handed, but as a price he could pay.

Only a few days after the terror defeat, there is a change in the atmosphere at Westminster. Senior backbenchers, who had grown resentful at the way policies were dropped on them from on high without notice or process, are being made to feel important. If the number of potential rebels is to be squeezed down to 25-30 irreconcilables, that is an important first step.

Despite eight and a half years in power, the prime minister is still a realist. If he has to choose

between some *Götterdämmerung* in which he stages one last battle with his party and preserving New Labour for his successor, there's no serious doubt about which it will be. Mr Blair may have said last week that sometimes it is better to lose and be right, but that's far removed from his normal approach to politics.

Mr Blair cares about his legacy. However, the bit he cares about most is Labour's ability to keep on winning elections. Labour could still self-destruct, but if Mr Cameron is wise he will prepare himself and his party for the long haul.

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General Motors

That sinking feeling

Nov 17th 2005 | DETROIT AND LONDON
From The Economist print edition

The world's biggest carmaker is at sea and floundering

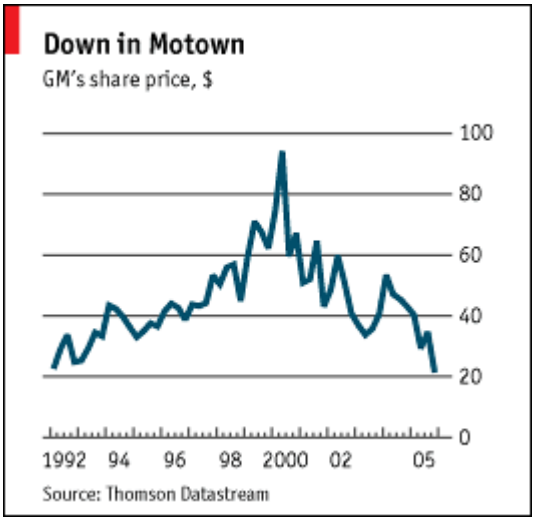
Get article background

FOR years General Motors (GM) was the undisputed titan of the world's car industry, effortlessly dominating everything. Now, to suppliers, employees and pensioners it must seem less like a titan and more like the Titanic, holed below the water-line, sinking slowly by the bow to the sound of loud shocks and bangs as bulkheads give way, one after the other. The chief executive on the bridge, Rick Wagoner, can rush around and bark orders, but to little effect.

At its peak in the early 1960s, the giant controlled over half the American car market and set the standards by which most of the world's manufacturing industry was measured. But it has been more than a generation since GM's dominance went unchallenged and, despite billions of dollars invested in new factories and vehicles, it has suffered a relentless decline in market share (see chart). Earnings have plunged, especially in its core North American market. The good ship GM scraped even more icebergs lately, the most recent being an announcement last week that it would have to restate earnings for 2001, due to improperly booked credits from suppliers.

Although this latest news is relatively minor (affecting a four-year-old financial report by only $400m) it had the sound of another groaning bulkhead and made people nervous. Since the announcement, GM's stock price has plunged even further. And for the first time since the carmaker's last big brush with disaster—in 1992, when

the company came within 40 minutes of bankruptcy—GM's bonds are back in the junkyard. Analysts and observers are muttering again about possible bankruptcy.



Exactly how and why things have gone so wrong is a matter of debate. Certainly, the situation was dire 13 years ago when a newly energised GM board flexed its muscle. They turned to Jack Smith, who in turn signed on Mr Wagoner, then barely 40, as one of his top lieutenants. The new management closed plants, cut the workforce, sold lacklustre component operations and seemingly restored much of the company's former lustre. By the boom years of the mid-1990s, GM was again rolling up record profits.

Yet, despite a few exceptional years, sales continued to decline. Critics, such as Dan Gorrell of Strategic Visions, a Californian consulting firm, say GM concentrated more on finance and marketing than designing and making cars. Indeed, after the company's annual meeting, Mr Wagoner conceded: “If we had a chance to rerun the last five years, we probably would have done a little more thinking about making sure that each product was distinctive and had a chance to be successful.”

GM paid a lot of attention to the development of its newest, full-sized sport-utility vehicles (SUVs), which will arrive in the showrooms early in 2006. But even the company's bullish “car tsar”, the vice-chairman, Bob Lutz, admits that the potential market for these vehicles has declined dramatically with higher oil prices.

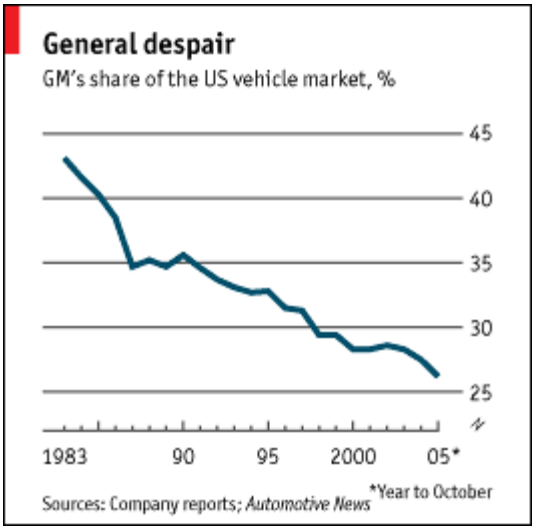
Misreading the SUV market might be bad enough, but GM also played down the need for a new generation of more fuel-efficient “crossover” vehicles. These are like SUVs, but lighter. The company scored a hit with its first models, such as the Chevrolet Equinox, but by the time the rest arrive Japanese competitors are likely to have taken control of the segment. GM refused to believe there would be enough demand to justify investment in petrol-electric hybrids. Yet again, it is now racing to catch up in a part of the market where the Japanese overwhelmingly dominate.

But products are only part of the problem at GM. Mr Wagoner was able to put a positive spin on GM's bleak, third-quarter earnings report (losses are $3.8 billion so far this year) by announcing that the United Auto Workers Union (UAW) would grant unprecedented concessions, shaving $1 billion from the carmaker's mounting health-care bill. He has turned his attention to attacking so-called legacy costs. The huge cutbacks of the 1990s saddled GM with nearly three retirees for every active worker. Yet the situation may only get worse in the near-term, with more closures expected to be announced next month. This could amount to up to six factories being shut.

Then there is the worsening situation at Delphi. Made up of former GM parts operations, the supplier is struggling to stay alive under Chapter 11 bankruptcy protection. Its chief executive, Steve Miller, has given warning that he may ask the bankruptcy court to overturn the firm's current labour contract. If that happens, Delphi's well-paid American workers could suddenly find themselves taking home a meagre $9 an hour. UAW leaders are threatening to strike if Mr Miller goes ahead. A walkout could disrupt the entire motor industry, but as Delphi's biggest customer by far, GM would suffer the most.

Not everything has gone wrong on Mr Wagoner's watch, of course. He has been successful in expanding abroad. The company's European operations are slowly recovering and Brazil has bounced back. GM's acquisition of South

Korea's Daewoo is looking like a bargain and is doing exceptionally well. Then there is China, where Mr Smith defied conventional wisdom at the time by being one of the first to open an assembly plant. Mr Wagoner has since ramped up Chinese operations, lining up a string of highly profitable joint-ventures and assembly operations. Ironically, it is the Buick badge that has connected best with Chinese motorists, and soon the brand may sell more cars in Asia than at home, where its staid image leaves many Americans cold.



Buick epitomises GM's challenge as it seeks to improve its global operations while reducing its dependence on America. One of Mr Wagoner's first steps as chief executive was to pull the plug on the ailing Oldsmobile division. He has repeatedly insisted that he has no intention of scuttling any more of GM's eight surviving car brands. But with its market share only around 25%, it is becoming increasingly difficult to justify the economics of feeding so many car divisions with truly new and exciting products.

The mystery passenger

As if Mr Wagoner did not have enough to worry about, there is Kirk Kerkorian. The reclusive Las Vegas billionaire now owns 9.9% of GM, a stake which has so far lost him a great deal of money, at least on paper. The octogenarian investor is “a difficult taskmaster”, cautions Gerry Meyers, a former chief executive of American Motors and now a professor at the University of Michigan. If things do not turn around, he expects Mr Kerkorian “will make himself very visible.” Mr Kerkorian made that clear when he once mounted an ultimately unsuccessful takeover bid for Chrysler. He is reportedly angling for a seat on the GM board for one of his own lieutenants, Jerry York, a former Chrysler executive.

Along with factory cutbacks, Mr Wagoner is planning to sell off a large stake in the company's profitable finance subsidiary, General Motors Acceptance Corp. Trying to predict his remaining options has become something of a parlour game in Detroit circles. Some are betting that GM will end up in Chapter 11 bankruptcy, now a popular move among American companies saddled with burdensome debts and high labour costs. Others give warning that such a move would simply alienate potential buyers of GM cars, making the situation graver still. Consumers will worry about warranties and the resale value of cars. What is clear is that GM's options are steadily diminishing and its still sizeable financial resources are being drained away at a frightening rate. At the current pace, it may not have the momentum to reach a safe port.

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Newspapers in America

Press gang

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America's second-biggest newspaper company goes on the block

MORE than any other American newspaper boss, Tony Ridder, chief executive of Knight Ridder, has provoked fury from journalists for cutting costs at the firm's newspapers, which include the *Philadelphia Inquirer* and the *Miami Herald*. But Mr Ridder has not cut deeply enough to satisfy shareholders. Private Capital Management (PCM), which owns 19% of Knight Ridder, has demanded that the company be sold. Other shareholders agree. This week, Knight Ridder asked Goldman Sachs to help it explore strategic options, including a sale.

PCM argues that Knight Ridder has not addressed the company's problems. Two of these—relatively thin profit margins, and not having a national paper which can hold its own on the internet—are specific to Knight Ridder. The firm's profit margin is lower than others partly because it operates both an English and a Spanish-language paper in Miami, and because it has struggled to maintain profitability in Philadelphia as people move to the suburbs.

But the Florida-based investor is also describing the plight of every newspaper firm: advertising is shifting from papers to other media, and the consolidation of big retailers such as Sears and Kmart will damage ad revenues further. PCM owns a big chunk of the newspaper industry, with, according to Goldman Sachs, stakes in McClatchy (37.1%), Belo (25.6%), Lee Enterprises (22.5%), Media General (18.2%), the New York Times Company (14.6%), Journal Register (12%) and Gannett (5.8%). For now, it is singling out Knight Ridder, but it could attack the others. Knight Ridder's shares were down 19% from the start of the year until PCM's demands, but the shares of other big newspaper companies—including Tribune and the New York Times Company—have done worse.

What Private Capital Management is doing raises a question, says Michael Smith, managing director of the media department at Northwestern University who previously worked at Knight Ridder. “Can a pure play newspaper company exist any more in the United States?” Some publishers, such as Scripps, have diversified into cable programming and other businesses, but others have stuck to what they know.

The latest circulation figures show that for the six months to September average daily circulation for papers fell 2.6%. Papers have been losing their share of advertising for decades, and a circulation scandal last year made advertisers wary. Classified advertising is particularly at risk (see article). Already, according to McKinsey, American newspapers have lost 5% of this market to new online entrants since 2001.

Newspapers' answer is to try to move online themselves. Numbers from Nielsen/NetRatings this week show that the number of unique visitors to newspaper websites grew 11% in October to 39.3m, or over a quarter of the American internet population. Knight Ridder in particular has embraced the internet, with 34 newspaper websites, its Real Cities Network of local news sites and

classified services such as CareerBuilder.com, which it owns with Gannett and Tribune. But PCM's demands suggest that institutional shareholders lack the patience to wait for digital revenues to boost growth.

Despite Mr Ridder's cuts, Knight Ridder's journalism is highly regarded. It has won Pulitzer prizes and its Washington bureau has won acclaim for its coverage of the Iraq war. In contrast to other scions of newspaper families who want to protect the public importance of their product, Mr Ridder owns under 5% of the firm. Families control five of the other newspaper firms in PCM's portfolio by means of special classes of shares or other methods. PCM is picking on Knight Ridder partly because it can, says Lauren Fine, publishing analyst at Merrill Lynch.

If it has to be sold, Knight Ridder would prefer another newspaper company to the other likely option, a private-equity firm. If Gannett, America's biggest newspaper company, were to buy Knight Ridder, says Ms Fine, it could lift its profit margin from 20% now to about 25%. A private-equity firm would strip out costs more ruthlessly. Because of the industry's difficulties, however, publishers may lack the confidence to buy more papers, and even private-equity buyers may not be keen. On November 16th, Rupert Murdoch said that News Corporation would be very unlikely to bid, because of Knight Ridder's shrinking classified advertising and declining circulation. Mr Murdoch has been diversifying away from newspapers for a long time.

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Online advertising

Classified calamity

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From The Economist print edition

Small ads are flooding away from newspapers and onto the internet

Get article background

RUPERT MURDOCH once described them as the “rivers of gold”—the lucrative classified-advertising revenues that flowed into big newspaper groups. But the golden rivers are being diverted online as the internet breaks the grip that local and regional newspapers once held over their advertising markets.

Typically, a local newspaper would expect to get some 80% of its revenue from advertising, of which around two-thirds would come from classifieds. But last year in the San Francisco Bay area, job ads worth some $60m were lost from newspapers to the web, reckons Classified Intelligence, a consultancy. Emap, a British publisher, recently gave warning of a 30% decline in recruitment ads in one of its titles, *Nursing Times*, following the launch of a free website for jobs in Britain's National Health Service.

The internet has become the fastest-growing advertising medium. Online ad revenues reached $5.8 billion in the first six months of this year in America, up 26% on the same period last year, according to a joint study by the Interactive Advertising Bureau and PricewaterhouseCoopers. In Britain, online ad revenues surged by 62% in the same period to almost £500m ($870m).

Search advertising—the small text-ads that appear alongside Google and Yahoo! searches—account for 40% of the online ad market. Another 20% goes to display ads and 18% to classified advertising. But search advertising can also work like a small ad and will increasingly challenge print classifieds as websites develop localised and more elaborate services for online users.

Perhaps the most significant development came on November 16th, when Google started up a prototype service called Google Base. It offers a searchable database of free listings, including small ads which can be narrowed down to postal regions. Among its first offerings were used cars. In time, Google could challenge eBay, whose own auction listings now work much like a giant classified website—especially with its “buy-it-now” options. But eBay charges sellers. Even so, it sold more than 450m items in the three months to September 30th, for almost $11 billion.

In response, most print publishers are expanding online. Mr Murdoch is buying websites including Propertyfinder and MySpace, a social-networking site. Newspaper groups have teamed up to jointly operate websites to compete with Monster for recruitment ads. But the online operators are expanding too. eBay, for instance, is building a global network of classified sites under the Kijiji brand. It also has a stake in the popular Craigslist which, having soaked up so many listings around its San Francisco home, is now frightening other newspapers as it expands its mostly-free ads service to other cities around the world.

Mergers and acquisitions

Private lives

Nov 17th 2005 | CHICAGO
From The Economist print edition

Koch Industries becomes America's largest private company

THEIR Dixie cups runneth over. Investors in Georgia-Pacific, an Atlanta-based maker of Brawny paper towels, Dixie cups and other paper goods, will get a luscious 39% premium for their shares, courtesy of Koch Industries, a privately owned conglomerate in Kansas. On November 13th, Koch agreed to buy Georgia-Pacific, listed on the New York stock exchange, for $13.2 billion in cash. It will also take on $7.8 billion of debt. Koch already earns over $60 billion of annual revenues from a quiet collection of businesses, from chemicals to energy and ranching, in some 50 countries. Adding Georgia-Pacific's $20 billion in sales will make it America's biggest privately owned company, surpassing Cargill, a farm-products outfit.

The deal called attention to the trend of American public companies delisting their shares and going private. One reason for this has been the heap of thankless—and many executives claim, pointless—extra tasks that regulators have forced on public firms in the wake of Enron and other corporate scandals.

To escape the corporate costs and personal risks associated with the post-Enron Sarbanes-Oxley act, some top executives have either fled their companies for jobs at private ones, or sought ways to take their existing firms private. The boss of Georgia-Pacific, Pete Correll, who will stay on as a board member, was quick this week to trumpet the benefits of privacy.

Both publicly listed and privately owned firms have always had their respective merits, which is why America boasts plenty of each. And the relative advantage of being privately owned has no doubt risen at least somewhat in the past few years. But that can hardly explain why Georgia-Pacific will be worth $3.7 billion more under Koch's ownership than it is as a publicly listed firm.

Part of the explanation seems to be that Koch has been shrewder than Georgia-Pacific's managers about trends in the pulp-and-paper business. Koch should be able to extract synergies by reintegrating Georgia-Pacific's business with some of the operations it had bought from the Atlanta firm in 2004. Some people have suggested that Koch, which has invested heavily in oil refining and chemicals, is now keen to diversify, explaining another portion of the premium.

But Steve Kaplan, a finance and corporate-governance expert at the University of Chicago's business school, reckons that it is best not to read too much into deals such as this one, since there is so much liquidity sloshing around America's capital markets. Mr Kaplan points out that while everyone has focused on the deals done by private-equity funds in recent years, a lot of deal money has also come from bankers who are eager to lend. Koch Industries, for example, has reportedly lined up an $11 billion loan from Citigroup to finance its purchase of Georgia-Pacific.

For big acquisitions, banks are now willing to lend at valuations matching those in 1986-87 and 1998, two periods notable for their froth. “We have a year or two, and we'll get another

recession," says Mr Kaplan, only half-jokingly.

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Offshore oil rigs

Jacking up

Nov 17th 2005 | SINGAPORE
From The Economist print edition

High oil prices have created a rig-building boom

WHEN oil firms prosper, so do their suppliers. In particular, as the high price of oil makes extracting the stuff from awkward spots worthwhile, business is booming for the companies that produce the equipment to do so. Jack-ups and semi-submersibles are rigs used to drill for oil at sea. They are also proving to be big earners for Keppel and SembCorp Marine, the Singaporean firms that make most of the world's supply. Together, the pair have orders for rigs and other vessels for the oil industry worth over 13 billion Singapore dollars ($7.6 billion). Both firms' share prices have soared this year.

Rig builders have not seen such a surge in orders since the early 1980s. In the lean years that followed, American and European shipyards dropped out of the business. But the famously far-sighted Singaporean government, which owns stakes in both companies and has long promoted the city-state as a transport and logistics hub, continued to invest in marine services as a natural complement to its busy port. SembCorp and Keppel both expanded overseas, and now operate ship-repair and rig-building yards around the world.

But with business more than doubling this year compared with last, those networks still might not be big enough. The pair will not complete some of their current orders until 2010. SembCorp is considering expanding its main yard in Singapore. Keppel insists it can still take on rush jobs, but only if a “good premium” is offered. On the other hand, investments in extra capacity might sour if the price of oil falls.

Choo Chiau Beng, the head of Keppel's marine unit, insists that his firm will remain buoyant even if the oil price subsides. The average age of jack-ups currently in use, he points out, is 22 years, although most were intended to last for only 20. There will still be a market for repairs and conversions no matter how cheap oil gets. Keppel has property and infrastructure divisions to insulate it. SembCorp, for its part, also builds and repairs ships. Anyway, Mr Choo predicts, the current investment cycle will last another five years at least.

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The internet

A peace of sorts

Nov 17th 2005 | TUNIS
From The Economist print edition

No one controls the internet, but many are determined to try

“EVERY civilisation starts as a theocracy and ends as a democracy,” wrote Victor Hugo, alluding to the impact of the printing press on the Catholic Church. So too the internet. This week, after years of vitriolic debate, the first steps towards nudging aside America's unilateral role in managing the internet's core infrastructure took shape.

From 1968 to 1998 the network's underlying protocols and addressing system were co-ordinated largely by an engineer named Jon Postel (whom techies referred to as “God”), acting under the aegis of America's Defence Department, which paid for the net's creation. Since 1998, the task has fallen to an international, self-regulating industry group called the Internet Corporation for Assigned Names and Numbers (ICANN), operating under the benign oversight of the American government. It manages things such as .com addresses and routing numbers that machines use online.

But as other countries began to appreciate the importance of the internet, ICANN's private-sector nature was deemed unsatisfactory; governments wanted more control. At the United Nations' World Summit on the Information Society in Tunis this week, countries agreed on the creation of an Internet Governance Forum to begin in 2006, which some nations plan to use to shift the oversight of the internet to a multilateral footing. Although others from industry and civil-society groups can participate, most governments expect that they will be the ones in charge.

Paradoxically, American officials hailed the outcome as a victory. In most respects, they are right. America beat back calls to replace ICANN entirely; it won backing for a toothless talking-shop that would not be limited to governments, and the talks will range over a jumble of issues, from cyber-security to spam. “There is no change in the technical aspects of the internet,” gushed David Gross, who led America's delegation.

Yet the agreement to defer the debate to another venue simply underscores that the real fight is only just starting. In terms of mainstream policy, the internet presents many concerns that require more governmental input than can be achieved with ICANN (which tries to do only technical stuff), yet have no natural home among existing international institutions. As for ICANN, countries object so strongly to America's unilateral power that the nation has been left nearly isolated.

Other countries have considered creating a supplementary addressing system to work alongside ICANN-sanctioned domains like .com or .uk (for Britain). This would permit other language scripts such as Chinese or Arabic to be used as web addresses. It would require a separate naming system alongside the existing one, which could cause complications, although a bit of competition might be good.

However, sharing the management of the internet comes at a price. Government influence over technology invariably slows down innovation, favours powerful players, increases costs and encumbers engineering with political squabbles. A desire to avoid these burdens is the reason America created ICANN. Nevertheless, most other countries remain unpersuaded, and arrived in Tunis to assert more governmental control, if only to minimise America's dominant role.

Achieving this may not be as easy as they expect, even if they eventually get their way. The internet is comprised of thousands of privately owned networks that agree to interconnect, and informally adhere to the late Dr Postel's (and now ICANN's) addressing system. America is able to maintain its formal power over the addresses through ICANN largely because it does not exercise much in reality.

Yet whoever administers the underlying infrastructure can subtly impose their values. As an American creation, the internet embodies decentralisation and openness on a technical level that has translated into free expression and low-cost access in both political and economic spheres. If the system were placed on an intergovernmental footing, such characteristics could well be jeopardised. So America is right to try to retain formal control if it can. Its largely hands-off approach has worked remarkably well.

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Microsoft

The latest in memoware

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Microsoft has belatedly recognised the promise of web-based software

Get article background

EVERY few years Bill Gates, the chairman of Microsoft, issues a memo signalling an important shift for his company, and hence for the software industry as a whole. In 1995, one of his memos heralded the rise of the internet. In 2002, another memo drew attention to the growing importance of computer security. Now a barrage of memos signals the emergence of a new generation of web-based software, often called “Web 2.0”. As in previous cases, what is new is not the idea itself, but the fact that Microsoft is taking it seriously.

First came an internal Microsoft memo written late last month by Ray Ozzie, its chief technical officer. This was backed up a few days later by a second memo from Mr Gates himself. But Mr Ozzie's memo is the more interesting, in large part because he spent most of his distinguished software career fighting Microsoft—notably as the inventor of Lotus Notes—before agreeing earlier this year to help Mr Gates revitalise Microsoft for the coming era.

At heart, said Mr Ozzie, Web 2.0 is about “services” (ranging from today's web-based e-mail to tomorrow's web-based word processor) delivered over the web without the need for users to install complicated software on their own computers. With a respectful nod to Google, the world's most popular search engine and Microsoft's arch-rival, Mr Ozzie reminded his colleagues that such services will tend to be free—ie, financed by targeted online advertising as opposed to traditional software-licence fees.

As with previous memos, Microsoft is widely perceived to be late to the party. Mr Gates and Mr Ozzie have announced plans for Windows Live and Office Live, two products intended to become just the sort of free internet services that Web 2.0 is supposedly all about. But both are, in fact, little more than new names for Microsoft's existing offerings, and look feeble in comparison with services offered by its rivals.

This prompted yet another memo from Marc Benioff, the marketing-savvy boss of Salesforce.com, a leading proponent of the “software as a service” model. If Microsoft were serious about Web 2.0 and Microsoft Live, he suggested helpfully in an “internal” memo sent to the press, it should rename its traditional software “Microsoft Dead”. Web 2.0, he said, was not about old companies constrained by their legacy products but new firms such as, naturally, Salesforce.com, Writely, Numsum, Zimbra and Goffice. For his part, Zach Nelson of NetSuite, another software-as-a-service company, says he decided against writing a memo. Writing memos is cheap, he says, whereas “writing software is a whole lot harder”.

There are, in short, lots of companies already delivering software in the form of web services, while Microsoft has yet to deliver much more than memoware. The cruel irony is that the key

technology that makes all this web-based software as responsive as the traditional kind is AJAX ("asynchronous Javascript and XML"), which Microsoft invented in 1998 but failed to exploit. Instead, it is now the new web powers that are putting AJAX to best use. "This coming services wave will be very disruptive," Mr Gates wrote in his memo. Disruptive to Microsoft in particular, he could have added.

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Face value

France's perennial takeover target

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Landov

Franck Riboud tries to keep Danone independent

HE HARDLY ever gives interviews, preferring to run his business without public posturing. But Franck Riboud, the chairman and chief executive of Danone, this autumn became so worried about the fallout from rumours of a hostile bid for his French food group by America's PepsiCo, that he broke his self-imposed silence and released a long interview on his company's website to put the record straight.

Speculation about a takeover of Danone is hardly new. Mr Riboud says he has lived with it for more than 20 years. Yet never before had France's political elite so publicly sprung to Danone's defence as they did this summer when the rumours reached their peak—causing, at one point, the company's shares to soar by over 13% in a single day. Politicians on the left and right, including Dominique de Villepin, the prime minister, vowed to fight to keep Danone in French hands.

Mr Riboud says he never spoke to PepsiCo and "most definitely" rejects allegations that Danone helped to fuel the rumours to give his company's shares a lift. The AMF, France's financial-markets regulator, is conducting an inquiry. According to Mr Riboud, it was the supposed bidder's silence which kept the rumours circulating. PepsiCo denied building a stake in Danone, but never denied that it had discussed a bid.

Danone is one of the most attractive companies in its field. It concentrates on biscuits, water and dairy products—the latter two categories among the fastest-growing segments of the food industry. In addition to strong global brands—Danone for dairy, Evian for bottled water and LU for biscuits—it owns or controls some successful local brands, such as La Serenissima, a dairy firm in

Argentina. Although it is one of the larger mid-sized food firms, it would be quite easy to swallow for one of the industry's giants. In addition to PepsiCo, Nestlé, Unilever, Coca-Cola and Kraft have at various times shown an interest in Danone.

That attractiveness is the result of a strategic shift under Mr Riboud. His father, Antoine, created France's biggest food group in 1973 when he merged BSN, a glassmaker that had diversified into beer, water and baby food, with Gervais Danone, a dairy firm. Riboud *père* repeatedly entered new lines of business, such as pasta, ready meals, confectionery, sauces and condiments. The group stopped making glass in 1981.

The youngest of Antoine's four children, Franck, who is 50, joined the firm at 25 and worked his way to the top doing a number of jobs, including running Evian. With an engineering degree from the Lausanne Polytechnic, he is not a typical product of France's elitist educational system. Perhaps this has made him bolder and more creative. Shortly after he took over from his father in 1996, he surprised most observers by announcing that he intended to pull Danone out of all businesses unrelated to water, biscuits and dairy products.

Thus the younger Mr Riboud became a pioneer of focused brand-management. Today, Procter & Gamble, Unilever, Heinz, General Mills and Sara Lee are increasingly relying on a smaller portfolio of superbrands. But Mr Riboud adopted this approach earlier than most. In quick succession he sold off Kronenbourg, a brewer, Panzani, a pasta-maker and Liebig, a soup company. At the same time, he pushed his company to the top in his chosen fields: Danone is the world's leading dairy producer, number two in biscuits after America's Nabisco and neck-and-neck with Nestlé in bottled water.

Danone says that, despite the sale of businesses, its annual turnover of almost €14 billion ($16.4 billion) is slightly more than in 1996, thanks to organic-growth rates of 5-7%. The group's market capitalisation has increased from €8.5 billion in December 1996 to €22 billion. But what really counts is not overall size but being big in the company's three lines of business, says Antoine Giscard d'Estaing, Danone's chief financial officer. He believes excellence is easier to control in a smaller firm, and that giant diversified groups pay less attention to detail.

Even so, some of Danone's acquisitions could have worked better. Biscuit-makers bought in Europe and Latin America have not done as well as hoped. The company has merged its poorly performing Latin American biscuit operation with that of a rival. The biggest disaster has been entering the market for delivering bottled water to homes and offices in America. On November 15th, the company said it was pulling out of this business.

America is a weak point. Danone passed up opportunities to bid for Nabisco, an American maker of cookies and crackers, and Quaker, a cereal company. It says it invested in emerging markets instead, where today almost one-third of its sales come from. Already a big producer of bottled water and biscuits in China, Danone is now trying to find a way to interest the Chinese in yogurt, and has recently opened a research centre in Shanghai.

Mr Riboud makes much of his yogurt innovations. Even so, it has been a while since Danone launched a blockbuster. Activia, a yogurt said to help digestion, was launched in 1988. Sales are still growing at 30% annually and it will be launched in America next year. Actimel, a dairy drink that promises to strengthen the immune system, was launched in 1996.

Mr Riboud wants to keep Danone independent, but he is fully aware that one of the industry's giants could easily afford to take it over, and might even be willing to brave the reaction of outraged French nationalists. About 85% of Danone's shares are freely traded, and so available to any determined acquirer. He is pinning his hopes on envy as a defence: that an offer will trigger a bidding war which might make Danone prohibitively expensive. In any case, a bid does not look

likely in the short term, according to Andrew Wood, an analyst at Sanford Bernstein, a New York investment-research firm. Most potential suitors, he says, are currently busy with other things. So, Mr Riboud may be able to relax for a bit, though probably not for ever.

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Peter Drucker

Trusting the teacher in the grey-flannel suit

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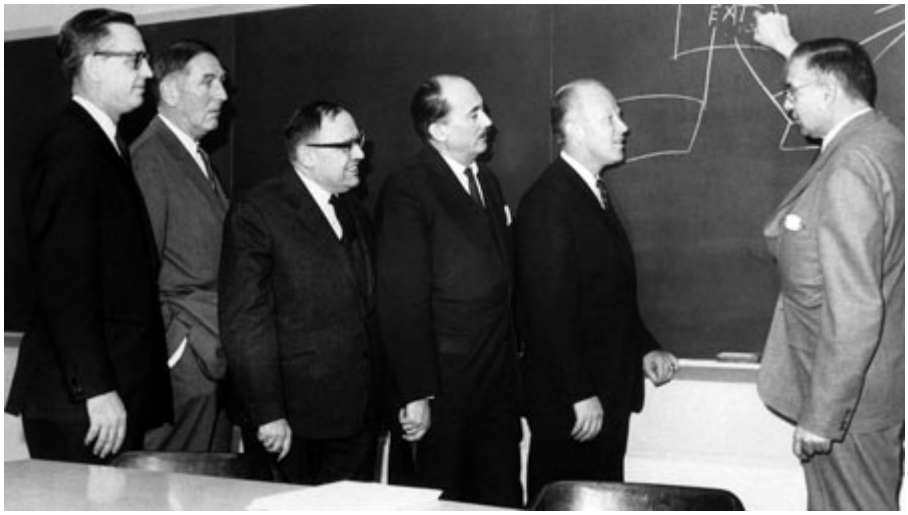

The one management thinker every educated person should read

ON NOVEMBER 11th, a few days short of his 96th birthday, Peter Drucker died. The most important management thinker of the past century, he wrote about 40 books (the last, “The Effective Executive in Action” will be published in January) and thousands of articles. He was a guru to the world's corporate elite, not just in his native Europe and his adoptive America, but also in Japan and the developing world (one devoted South Korean businessman even changed his first name to Mr Drucker). And he never rested in his mission to persuade the world that management matters—that, in his own rather portentous formula, “Management is the organ of institutions...the organ that converts a mob into an organisation, and human efforts into performance.”

Did he succeed? The range of his influence was extraordinary. George Bush is a devotee of Mr Drucker's idea of “management by objectives”. (“I had read Peter Drucker,” Karl Rove once told the *Atlantic Monthly*, “but I'd never seen Drucker until I saw Bush in action.”) Newt Gingrich mentions him in almost every speech. Mr Drucker helped to inspire privatisation—an idea that in the 1980s galvanised Britain's sclerotic economy.

He changed the course of thousands of businesses. He spawned two huge revolutions at General Electric—first when GE followed the radical decentralisation he preached in the 1950s, and again in the 1980s when Jack Welch rebuilt the company around Mr Drucker's belief that it should be first or second in a line of business, or else get out. Yet Mr Drucker is also cited as a muse by both the Salvation Army and the modern mega-church movement. Wherever people grapple with tricky management problems, from big organisations to small ones, from the public sector to the private,

and increasingly in the voluntary sector, you can find Mr Drucker's fingerprints.

This is not to say that Mr Drucker was invariably right—or even always sensible. He was given to making sweeping statements that sometimes turned out to be nonsense. He argued, for example, that the great American research universities are “failures” that would soon become “relics”—odd for a man who made so much of the knowledge economy. He was slow to shift his attention from big firms to entrepreneurial start-ups. But he was much more often right than wrong. And even when he was wrong he had a way of being thought-provoking.

The man who became famous as an American management thinker was really a Viennese Jewish intellectual. The author of this article once visited him in his home in Claremont, California—a modest affair when set beside the mansions of most management gurus. His choice of a restaurant for lunch was more modest still. But as Mr Drucker talked it was easy to forget about the giant plastic wagon wheels that decorated the walls or even the execrable food. He talked with his deep, heavy Teutonic accent about meeting Sigmund Freud (as a boy), John Maynard Keynes and Ludwig Wittgenstein (as a student at Cambridge). He said that he liked to keep his mind fresh by taking up a new subject every three or four years (he was heavily immersed in early medieval Paris at the time). The overall effect was rather like listening to Isaiah Berlin channelled by Henry Kissinger.

Mr Drucker was born in 1909 in the Austrian upper middle class—his father was a government official—and educated in Vienna and Germany. He earned a doctorate in international and public law from Frankfurt university in 1931. In normal times this would have led to a distinguished, if predictable, academic career. But those were not normal times—and Mr Drucker was not a man to bow down to the confines of academic disciplines. He spent his 20s trying to avoid Adolf Hitler and drifting among a number of jobs, including banking, consultancy, academic law and journalism (his journalistic career included a spell as the acting editor of a women's page).

Along the way, he became increasingly convinced that the best hope for saving civilisation from barbarism lay in the humdrum science of management. He was too sensitive to the thinness of the crust of civilisation to share the classic liberal faith in the market, but too clear-sighted to embrace the growing fashion for big-government solutions. The man in the grey-flannel suit held out more hope for mankind than either the hidden hand or the gentleman in Whitehall.

He finally found a home in American academia, teaching politics, philosophy and economics. But it was not exactly a happy home. His first two books—“The End of Economic Man” (1939) and “The Future of Industrial Man” (1942)—had their admirers, including Winston Churchill, but they annoyed academic critics by ranging so widely over so many different subjects. This might have sealed his fate as just another discontented academic maverick. But “The Future of Industrial Man” attracted the attention of General Motors—then the world's biggest company—with its passionate insistence that companies had a social dimension as well as an economic purpose.

The car company invited Mr Drucker to paint its portrait—and offered him unique access to GMers from Alfred Sloan down. The resulting book—“The Concept of the Corporation”—changed the young man's life. The book not only became an instant bestseller, in Japan as well as in America, remaining in print ever since. It also helped to create a management fashion for decentralisation. By the 1980s, about three-quarters of American companies had adopted a decentralised model. Mr Drucker later boasted that the book “had an immediate impact on American business, on public service institutions, on government agencies—and none on General Motors.” Mr Drucker the management guru had been born.

Knowledge workers

The two most interesting arguments in “The Concept of the Corporation” actually had little to do with the decentralisation fad. They were to dominate his work.

The first had to do with “empowering” workers. Mr Drucker believed in treating workers as resources rather than just as costs. He was a harsh critic of the assembly-line system of production that then dominated the manufacturing sector—partly because assembly lines moved at the speed of the slowest and partly because they failed to engage the creativity of individual workers. He was equally scathing of managers who simply regarded companies as a way of generating short-term profits. In the late 1990s he turned into one of America's leading critics of soaring executive pay, warning that “in the next economic downturn, there will be an outbreak of bitterness and contempt for the super-corporate chieftains who pay themselves millions.”

The second argument had to do with the rise of knowledge workers. Mr Drucker argued that the world is moving from an “economy of goods” to an economy of “knowledge”—and from a society dominated by an industrial proletariat to one dominated by brain workers. He insisted that this had profound implications for both managers and politicians. Managers had to stop treating workers like cogs in a huge inhuman machine—the idea at the heart of Frederick Taylor's stopwatch management—and start treating them as brain workers. In turn, politicians had to realise that knowledge, and hence education, was the single most important resource for any advanced society.

Yet Mr Drucker also thought that this economy had implications for knowledge workers themselves. They had to come to terms with the fact that they were neither “bosses” nor “workers”, but something in between: entrepreneurs who had responsibility for developing their most important resource, brainpower, and who also needed to take more control of their own careers, including their pension plans.

All this sounds as if Mr Drucker was an exponent of the airy-fairy human-relations school of management. But there was also a “hard” side to his work. Mr Drucker was responsible for inventing one of the rational school of management's most successful products—“management by objectives” (this is the one that Mr Bush still follows).

In one of his most substantial works, “The Practice of Management” (1954), he emphasised the importance of managers and corporations setting clear long-term objectives and then translating those long-term objectives into more immediate goals. He argued that firms should have an elite corps of general managers, who set these long-term objectives, and then a group of more specialised managers.

For his critics (who had a point), this was a retreat from his earlier emphasis on the soft side of management. For Mr Drucker it was all perfectly consistent: if you rely too much on empowerment you risk anarchy, whereas if you rely too much on command-and-control you sacrifice creativity. The trick is for managers to set long-term goals, but then allow their employees to work out ways of achieving those goals.

From early on, Mr Drucker tried to apply his interest in management in a universal way. For instance, he realised that America has no monopoly on management wisdom. This might not sound like much of an insight today, in the light of the Asian miracles. But in 1950s America—when most American managers dismissed Japan as a maker of cheap knickknacks and the rest of Asia as an irrelevance—it was a revelation.

Mr Drucker used his newfound fame in Japan to flesh out his suspicion that Japan was turning itself into an economic powerhouse. (As a sideline he managed to develop a fine collection of Japanese art.) He wrote extensively about Japanese management techniques long before they became popular in America in the 1980s. But he also exported many American techniques to a

country that was desperate to learn from Uncle Sam.

More than just a business thinker

If Mr Drucker helped make management a global industry, he also helped push it beyond its business base. He was emphatically a management thinker, not just a business one. He believed that management is “the defining organ of all modern institutions”, not just corporations; and the management school that bears his name at Claremont College recruits a third of its students from outside the business world.

In the public sector, as well as championing privatisation, he helped to inspire the reinventing-government movement that Al Gore promoted with some success in the 1990s. That movement has gone into eclipse at the federal level, but is still forging ahead in some states, such as Massachusetts, where Mitt Romney, the governor, is a powerful supporter.

Some of Mr Drucker's most innovative work was with voluntary and religious institutions (indeed, Mr Bush singled out his contribution to civil institutions when he awarded him the presidential medal of freedom three years ago). Mr Drucker told his clients, who included the American Red Cross and the Girl Scouts of America, that they needed to think more like businesses—albeit businesses that dealt in “changed lives” rather than in maximising profits. Their donors, he warned, would increasingly judge them not on the goodness of their intentions, but on the basis of their results.

One perhaps unexpected example of Druckerism is the modern mega-church movement. He suggested to evangelical pastors that they create a more customer-friendly environment (hold back on the overt religious symbolism and provide plenty of facilities). Bill Hybels, the pastor of the 17,000-strong Willow Creek Community Church in South Barrington, Illinois, has a quotation from Mr Drucker hanging outside his office: “What is our business? Who is our customer? What does the customer consider value?”

Mr Drucker went further than just applying business techniques to managing voluntary organisations. He believed that such entities have many lessons to teach business corporations. They are often much better at engaging the enthusiasm of their volunteers—and they are also better at turning their “customers” into “marketers” for their organisation. These days, business organisations have as much to learn from churches as churches have to learn from them.

What he got wrong

There are three persistent criticisms of Mr Drucker's work. The first is that he was never as good on small organisations—particularly entrepreneurial start-ups—as he was on big ones. “The Concept of the Corporation” was in many ways a fanfare to big organisations: “We know today that in modern industrial production, particularly in modern mass production,” Mr Drucker opined, “the small unit is not only inefficient, it cannot produce at all.” The book helped to launch the “big organisation boom” that dominated business thinking for the next 20 years.

The second criticism is that Mr Drucker's enthusiasm for management by objectives helped to lead business down a dead end. Most of today's best organisations have abandoned this idea—at least in the mechanistic form that it rapidly assumed. They prefer to allow ideas—including ideas for long-term strategies—to bubble up from the bottom and middle of the organisations rather than being imposed from on high. And they tend to eschew the complex management structures of the management-by-objectives era. The reason is that top management is often cut off from the

people who know both their markets and their products best (a criticism that certainly rings true in Mr Bush's White House, though that is another story).

Third, Mr Drucker is criticised for being a maverick in the management world—and a maverick who has increasingly been left behind by the increasing rigour of his chosen field. He taught in tiny Claremont rather than at Harvard or Stanford. He never grappled with the rigours of quantitative techniques. There is no single area of academic management theory that he made his own—as Michael Porter did with strategy and Theodore Levitt did with marketing. He would throw out a highly provocative idea—such as the idea that the West has entered a post-capitalist society, thanks to the importance of pension funds—without really clarifying his terms or tying up his arguments.

There is some truth in the first two arguments. Mr Drucker never wrote anything as good as “The Concept of the Corporation” on entrepreneurial start-ups. This is odd, given his personality: this prophet of the “age of organisations” was a quintessential individualist who was happiest ploughing his own furrow. (One of his favourite sayings was, “One either meets or one works.”) It is also remarkable since he spent so much of his life in southern California—a hotbed of individualism and entrepreneurialism that helped to produce the small-business revolution of the 1980s. Mr Drucker's work on management by objectives sits uneasily with his earlier (and later) writing on the importance of knowledge workers and self-directed teams.

But the third argument—that he was too much of a maverick—is both short-sighted and unfair. It is short-sighted because it ignores Mr Drucker's pioneering role in creating the modern profession of management. He produced one of the first systematic studies of a big company. He pioneered the idea that ideas can help galvanise companies. And he helped to make management fashionable with a constant stream of popular writing. It may be over-egging things to claim that Mr Drucker was “the man who invented management”. But he certainly made a unique contribution to the development of the subject.

It is true that he cannot be put into any neat academic pigeonhole: he liked to refer to himself as a “social ecologist” rather than a management theorist, still less a management guru (he once quipped that journalists use the word “guru” only because “charlatan” is too long for a headline). It is true that he eschewed the system-building of some of his fellow academics. And he preferred reading Jane Austen to doing multivariate analysis.

But system-building often produces castles in the air rather than enduring insights. (It is notable that Mr Drucker's most systematic work—on management by objectives—has lasted least well.) Mr Drucker made up for his lack of system with a stream of insights on an extraordinary range of subjects: he was one of the first people to predict, back in the 1950s, that computers would revolutionise business, for example. His reading of history enabled him to see through the fog that clouds less learned minds: he liked to puncture breathless talk of the new age of globalisation by pointing out that companies such as Fiat (founded in 1899) and Siemens (founded in 1847) produced more abroad than at home almost as soon as they got off the ground.

These days management theory is increasingly dominated by academic clones who produce papers on minute subjects in unreadable prose. That certainly does not apply to a man who claimed that the academic course that most influenced him was on, of all things, admiralty law.

The legacy

The biggest problem with evaluating Mr Drucker's influence is that so many of his ideas have passed into conventional wisdom—in other words, that he is the victim of his own success. His writings on the importance of knowledge workers and empowerment may sound a little banal

today. But they certainly weren't banal when he first dreamed them up in the 1940s, or when they were first put in to practice in the Anglo-Saxon world in the 1980s. Remember the way that many British bosses scoffed when Japanese carmakers set up factories in Britain and told their Geordie workers that they had to think as well as rivet, weld and hammer?

Moreover, Mr Drucker continued to produce new ideas up until his 90s. His work on the management of voluntary organisations—particularly religious organisations—remained at the cutting edge. America's business academics have only just begun to look seriously at the organisational transformation that he helped to pioneer.

Mr Drucker has a way of getting the last word. Richard Nixon once began a pep talk to the Department of Health, Education and Welfare with a side-swipe at him. “Mr Drucker says that modern government can do only two things well: wage war and inflate the currency. It's the aim of my administration to prove Mr Drucker wrong.” In retrospect, Mr Nixon failed even at those potentially achievable tasks.

Asked which management books he paid attention to, Bill Gates once replied, “Well, Drucker of course,” before citing a few lesser mortals. Management theory has not evolved into the world's most rigorous or enticing intellectual discipline. But in Peter Drucker it at least found a champion whom every educated person should take the trouble to read.

On November 1st 2001 we published a survey by Mr Drucker called “The Next Society”. It can be found at www.economist.com/nextsociety

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Europe's economies

Seeing Europe the right way up

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The euro area's economies are in better shape than they look

GERMANS vote against economic reform; France's young unemployed riot; and the European Central Bank (ECB) seems to be itching for an excuse to raise interest rates and strangle the euro area's feeble economic growth. For sceptics, nothing has changed: the single currency zone's economies are a miserable sight and will remain so. But if they took a careful look from another angle, they might see an altogether happier picture.

At the very least, European economies are picking up speed. Figures published this week showed that the euro area's GDP grew by 0.6% in the third quarter (2.6% at an annual rate), the fastest for a year and a half. Germany, France and Spain all managed 0.6% or better; Italy and the Netherlands reported growth of only 0.3%.

By American standards this looks sluggish: America's GDP grew at an annual rate of 3.8% in the same quarter. Even so, euro-area growth is now above its supposed potential rate of around 1.8%. This is below the American trend of perhaps 3% partly because of Europe's slower productivity growth. The main reason, though, is that America's population is increasing much faster than the euro zone's.

The composition of the whole zone's third-quarter growth is not yet known, but Germany's official statisticians have ascribed almost all of their country's GDP growth to net exports and investment. Economists at HVB, a big German bank, reckon that private consumption probably shrank for the third quarter running, for the first time on record.

Elsewhere, the pattern is reversed, with consumer spending contributing far more and exports far less. The idea that growth in the euro zone depends almost entirely on external demand, while domestic demand stagnates, is a myth. Morgan Stanley calculates that for the zone as a whole, net exports have contributed only 0.1% of the 1.9% average growth in GDP since 1999.

Even in Germany there are now signs that domestic demand is stirring. Bank lending to firms and households has started to rise after falling for most of the past three years. The latest survey of business confidence by Ifo, a Munich research institute, showed a strong uptick in retailing, suggesting that consumers are opening their wallets. And throughout the euro area, surveys of business and consumer confidence continued to rise in October, which bodes well for the current quarter. *The Economist*'s most recent poll of forecasters still predicts average growth in the zone of only 1.6% next year, but this could prove too pessimistic.

Whether the recovery lasts depends on the labour market. In Germany intensive corporate restructuring has depressed jobs and wages for several years. Only if more jobs are created will consumers spend more. There are some hopeful signs. The euro area's unemployment rate has fallen by more than expected in recent months, from 8.8% in April to 8.4% in September.

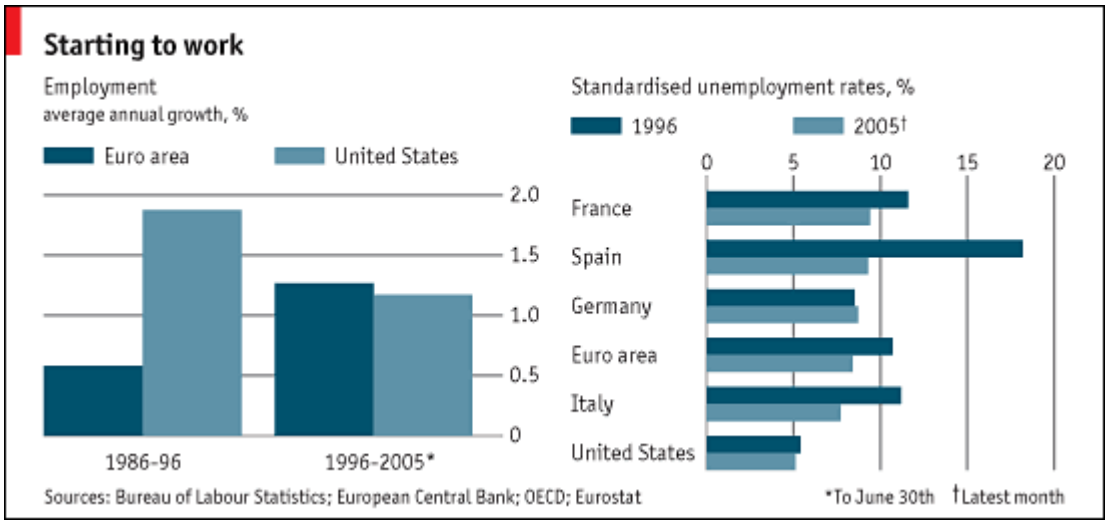
Several countries' jobless figures may be distorted by special employment measures and changes in rules for claiming benefits, but surveys point to an improvement in underlying conditions. This is the result of various labour-market reforms as well as a cyclical upturn. Though labour markets remain stiff, they are not as rigid as they were. Indeed, the unemployment figures may understate the overall gains: employment has risen by far more than unemployment has fallen as reforms have dragged previously discouraged workers back into the labour market.

Spain has enjoyed the fastest expansion in jobs, 4% a year since 2000. And Italian employment has risen by an annual average of 1.4% in the past six years. This partly reflects the emergence of workers from the black economy into the official realm, but some of the increase is real, thanks to new, more flexible types of job contract. Italy's jobless rate, almost 12% in 1998, is now 7.7%. Germany is the only big euro-zone country whose unemployment rate has not fallen in the past decade.

Germany's new grand coalition government has eschewed further structural reform and is focusing instead on reducing the budget deficit. It plans to lift the rate of value-added tax from 16% to 19%, but not until 2007 (see article). This could boost spending next year if it encourages consumers to bring purchases forward—but clobber it when the tax increase takes effect. Some economists also worry that the ECB will throttle the euro area's recovery by raising interest rates too soon. Comments after the central bank's policy meeting on November 3rd suggest that rates could rise as early as the next one, on December 1st. A quarter-point rise is unlikely to do much harm, however, because real interest rates would still be negative.

Europe's surprising secret

Yes, yes, sceptics might say, but one quarter's decent growth and a few reforms here and there don't alter the unprepossessing long-term picture. In fact, Europe's performance has been better than the conventional wisdom says. Although America has outpaced Europe this year, over the past five years GDP per head, the best single measure of economic performance, grew at an average rate of 1.4% in the euro area, just behind America's 1.5%. Ah, but America is better at creating jobs, isn't it? Actually, no. Employment has grown a tad faster in the euro area than in America whether one looks at the past five years or the past ten—a striking improvement on the decade to the mid-1990s (see chart).



Since 1996 the proportion of the population of working age with jobs has fallen from 73% to 71% in America; in the euro area it has risen from 59% to 65%. The fact that the euro area has achieved its growth without enormous increases in its current-account and budget deficits might also indicate that its record is more sustainable than America's.

This is not to say that everything is rosy in euroland. Far from it. Europe has to cope with a shrinking workforce and an ageing population, as well as fiercer global competition. Europe's markets will have to become more flexible, its people will need to work for longer and its productivity growth must improve. Yet, given that Europe's unhappy economies have not been doing so badly compared with America's jollier one, the rewards from further reform might be all the greater.

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Terror insurance

Horrible business

Nov 17th 2005
From The Economist print edition

America's insurers lobby to keep their federal safety net

Reuters

Death and destruction

IN A year when nature has dealt some mighty blows to America's insurers, it is noteworthy that the industry is nearly as agitated about a man-made threat: terrorism. At the eleventh hour, Congress is debating whether to extend the Terrorism Risk Insurance Act (TRIA), which was passed as a temporary measure after the attacks of September 11th 2001 to provide a government back-stop for the insurance industry in the event of further outrages.

TRIA will expire at the end of the year unless Congress acts fast. Insurers are lobbying hard to keep it alive. The Bush administration, however, objects to extending the law as it stands. It believes the market should provide, and considers the current threshold at which a terror attack triggers government reinsurance backing—$5m in insured losses—ridiculously low. If TRIA is extended, the Treasury wants the floor raised to $500m, a figure that America's insurers (most of them small) think ridiculously high.

This week, after months of little action, a compromise looked possible. On November 15th, leading Republicans and Democrats on the Senate Banking Committee appeared to reach a deal that would extend the federal guarantee, but reduce the number of insurance “lines”—property, workers' compensation and so on—that it covers. It would also bump up the minimum-loss threshold to $50m next year and $100m in 2007. Though this is well below what the administration wants, the Treasury thinks it preferable to a House of Representatives committee's version of the law that it believes could cost taxpayers more. Congress could vote on the compromise within days.

One of the best recent analyses of TRIA was by academics at the University of Pennsylvania's Wharton School. It found that, as insurers argue, private reinsurers have not stepped in to offer sufficient capacity to cover primary insurers' potential losses from big terror attacks, even as the end of existing TRIA coverage looms. The study identified several reasons for this. The terrorism threat is hard to quantify; rating agencies have downgraded insurers for carrying what they consider too much terrorism risk; federal tax policy raises the cost to private insurers of certain strategies for spreading risk; state regulations and compulsory insurance, such as workers' compensation, hinder private-sector ability to manage risk; and the prospect of federal disaster assistance (like that after Hurricane Katrina) reduces incentives for customers to insure against catastrophes.

TRIA now requires commercial insurers to provide terrorism-risk policies, but does not cover all insurance lines. A hot topic of debate is what should now be cut from or added to the programme. Smaller insurers are most concerned that workers' compensation (which they are obliged to offer) and property should remain included, says William Berkley, chairman of W.R. Berkley, a holding company with insurance interests. Large insurers, meanwhile, are more worried about general liability insurance, which is not covered now. If it is included, says Mr Berkley, “people may not be as careful to protect against terrorism. They'll assume the insurance company will pay.”

Wharton's Erwann Michel-Kerjan says there should be a national commission to assess long-term solutions for terrorism insurance. America is not alone in tackling the question. Countries from Britain to Spain and Australia have public-private programmes already. As the OECD warned earlier this year, “mega-terrorism” attacks could exceed even the combined capacity of insurers and governments to cover losses without threatening the economic stability of some countries.

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Financial exchanges

Market mania

Nov 17th 2005 | NEW YORK
From The Economist print edition

Shares in financial markets are popping

AT THE peak of the internet bubble in early 2000, a collection of utilities, oil companies and investment banks founded, appropriately enough, an internet trading market, IntercontinentalExchange. At that time energy trading, particularly over the internet, looked promising; it then became a disaster, before becoming promising once again. On November 16th, shares in that exchange, commonly called ICE, made their debut on the New York Stock Exchange (NYSE). The offer price had been raised by half, to $26 a share, even before trading began. Soon after it started, the price reached $43.50. It closed at $39.25.

ICE is the third American exchange to be floated this year, following the International Securities Exchange (ISE) in March and the Chicago Board of Trade last month. Each has a slightly different speciality: ICE trades energy contracts, the Board of Trade dominates Treasury futures and the ISE deals primarily in equity options. What they have in common is booming valuations. The ISE's shares are up by two-thirds since their debut; the Board of Trade's have more than doubled. Shares in the Chicago Mercantile Exchange, which went public in 2002 at $35, now fetch $378, twice what they did in May—not bad for an institution whose best-known product, Eurodollar futures, is a convenient mechanism for betting on interest rates. The ISE is worth $1.1 billion, the ICE $2 billion, the Board of Trade $6 billion and the Chicago Merc $13 billion.

For people in the financial markets, all this is a bit of a shock. Founders of the ISE toiled for years at the NYSE and the American Stock Exchange. Today, the Amex barely has a pulse; efforts by the NYSE to move into futures and options collapsed during the tenure of Richard Grasso, chief executive until he was ejected two years ago for paying himself too generously.

At least the NYSE's members can take heart from a tripling of seat prices since January. A new record, $3.25m, was set on November 16th. And the NYSE will soon go public itself, via a merger with Archipelago Holdings, an electronic trading platform. Joining in the frenzy is the New York Mercantile Exchange, known for its benchmark oil contracts, which has said it will go public next year.

There is an irony that so far all of the electronic exchanges have sought to have their own stocks trade on the NYSE. Presumably they like something about a business model that still revolves around people screaming on an old wooden floor. Indeed on November 15th, the NYSE's seat holders convinced a New York judge that the merger with Archipelago may have undervalued the Big Board's contribution.

At least, the offerings should reveal what exchanges are really worth. So far, this is not clear, despite the soaring prices. None of the exchanges has produced much profit in the past. If they did their job perfectly, you might suppose, they would provide a frictionless market—and there would be no money to be made.

Buyers seem keen for two reasons. First, the exchanges had no incentive to show good results under their old, not-for-profit structure. To the extent money was made, it was kept by participants, not reflected in an overall income statement. More broadly, there is a prevailing thought that if an exchange can gain a dominant share of trading in a product, it will be a natural monopoly, controlling liquidity and, to a degree, prices. Volume will soar and revenues with them. The blow-up of Refco (see article), with losses to some customers, provided extra publicity for these stocks, in as much as transactions on exchanges are guaranteed by the exchanges or their clearing firms.

That, in any event, is the theory. An alternative reason is put forward by the head of a leading investment bank (not the underwriter), who contends that the current high valuation for exchanges is no different from the current high valuation for top-tier New York apartments. In other words, they're insane.

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Refco

The ascent of Man

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From The Economist print edition

After the auction of part of the stricken broker's business, questions remain

A SOLUTION to one of the many problems of Refco, a big American futures broker that collapsed amid scandal last month, has been found. The broking arm of Man Group, a broker and hedge-fund manager, bid $323m for its ex-rival's regulated commodity-futures business and emerged victorious from an auction on November 10th. A home has thus been found for Refco's healthier bits. Plenty of trouble lingers, though, for Refco's unregulated units that filed for bankruptcy. This week, a turnaround expert was appointed chief executive.

In recent weeks, a clear contrast has emerged between the prospects of Refco's regulated and unregulated businesses. The former, uninvolved in the alleged securities fraud with which Phillip Bennett, Refco's former boss, has been charged (and which he denies) have continued to operate despite losing customers and employees to competitors. The latter, including foreign-exchange operations, are mired in lawsuits and financial trouble. Customer accounts have been frozen and trading has been suspended. A federal bankruptcy court is trying to sort out the mess, with creditors seeking access to documents from Grant Thornton (Refco's auditor), Thomas H. Lee Partners (the private-equity firm that is its largest shareholder) and BAWAG, an Austrian bank being asked awkward questions at home about a large loan it made to Mr Bennett just before the alleged fraud was exposed.

Man Group, based in London, is best known for its hedge-fund business, but it is also one of the world's largest futures brokers. Man Financial, its broking operation, now contributes about 15% of group pre-tax profit and Man estimates that this will rise to about 20% after the Refco purchase. The group, which announced a £125m ($215m) share sale alongside healthy first-half profits on November 17th, is betting that by salvaging an important player in the futures industry, it can expand its share of a booming business.

Most people in the industry view the deal favourably, but some ask exactly what Man is buying. Most clients have more than one broker these days, and can hop from one to another. Employees can move easily too. Analysts at Bear Stearns reckon that Man has paid almost 20 times prospective earnings for the Refco assets, which may be a little rich.

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Old Mutual and Skandia

Cold feet

Nov 17th 2005 | JOHANNESBURG
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Obstacles in the path of a north-south insurance deal

FOLLOWING months of talk and a formal offer in October, Old Mutual is pressing ahead with its plan to buy Skandia, Sweden's oldest insurance company. On November 14th, the shareholders of South Africa's largest financial firm, now listed and headquartered in London, gave their approval to the SKr45.5 billion ($5.5 billion) cash-and-shares bid. Skandia's shareholders, who originally had until November 21st to ponder the offer, now have until December 16th. This, says Old Mutual, will allow various regulatory hurdles to be cleared before the shareholders have to make up their minds. However, a fair-sized minority has already given Old Mutual's overture a frosty reception. The bid's complete success is far from certain.

In September, Skandia's board advised shareholders to reject the bid. The offer was too cheap, it said, and Skandia had a bright future on its own. Solid third-quarter results, announced on November 15th, may have reinforced its confidence. Some board members have also frowned on Old Mutual's substantial exposure to South Africa, which they see as too great a risk. The Swedish press has aired emotional concerns about letting a national treasure fall into foreign hands—even though foreigners already have 60% of Skandia's shares. Some of the main Swedish shareholders, thought to own about 15%, have already publicly snubbed the offer.

For Old Mutual, one of the deal's main attractions is the chance to expand further outside South Africa, which six years ago was the source of virtually all its revenue. Today, 25% of operating profit comes from outside Africa, primarily America. Skandia, operating in 20 countries, including 15 in Europe, looks like a good match.

At £5.8 billion ($10.1 billion), Old Mutual's market capitalisation is almost twice Skandia's. A takeover would create Europe's eighth-largest life insurer by embedded value (a common measure of life companies' worth: the sum of shareholders' equity and the net present value of existing insurance contracts). Together, the two firms employ 47,000 people and manage £192 billion-worth of assets. Old Mutual believes that, jointly, they could expand services, diversify their exposure to various markets and maybe obtain capital more cheaply. It reckons that a combination would save £70m a year, at a cost of £71m over the next two years.

Old Mutual, which also reported strong figures this week, argues further that a stable, cash-flush shareholder would help the Swedish insurer. Skandia has been recovering from a scandal—its former chief executive was recently indicted for fraud—that dented its brand and market share. Under a new management team, restructuring began in 2003. Skandia's house is in better order now, as this week's results indicate. However, it still needs capital to finance its ambitious plans.

Not all Skandia's top brass opposed the deal. Three board members, including the ex-chairman (who resigned on October 7th) believe Old Mutual has made a good offer. ABN Amro, a Dutch bank asked by the board to provide an independent opinion, also said the offer was fair. Rating

agencies have been positive. Many of Skandia's foreign owners are said to be keen to sell. The share price has risen by more than 20% since Old Mutual's ambitions became known in May.

No other suitors have emerged for the whole of Skandia, and the board has said it will not look for a white knight. Old Mutual has made it clear that it will not increase its offer. There is much speculation about the size of stake it will accept if it fails to secure more than 90% of Skandia's shares and thus be able to force the owners of the rest to sell. A majority may be on the cards; but Old Mutual may have to settle for less than a full acquisition.

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German banks

Prey with appetite

Nov 17th 2005 | FRANKFURT
From The Economist print edition

A perennial target goes shopping

EPA

Under new ownership

FAIRLY frequently—maybe a couple of times a year—a rumour does the rounds in Frankfurt that someone or other is thinking of buying Commerzbank, Germany's fourth-biggest bank. This week the bank that bore all the signs of being for sale turned predator. Commerzbank said that it would buy Eurohypo, Europe's biggest mortgage bank, and thus climb to second in the German league table, behind Deutsche Bank.

Eurohypo was formed in 2002 from the pooled mortgage assets of Deutsche, Dresdner Bank (owned by Allianz, a big insurer) and Commerzbank. The idea was to offer shares to the public eventually. But last week, Hypo Real Estate, a Munich mortgage bank, asked Allianz if it would sell its 28.5% stake. Commerzbank, which had first right of refusal, decided to strike. It negotiated the purchase of both Allianz's and Deutsche's stakes, for around €20 ($23) a share, to secure 98% of Eurohypo.

Finding the necessary €4.6 billion will be a stretch. But as a first step on November 15th it sold its 2.9% stake in the Italian Banca Intesa to raise €800m. Around €1.25 billion will come from a placement of shares this week with institutional investors. The deal is due to be completed by the end of March.

Trying to clamp a commercial-property lender on to a retail and corporate bank may yet prove to be a mistake. However, both institutions are producing steady returns. Commerzbank delivered an annualised post-tax return on equity of 12.1% in the first nine months of this year, Eurohypo produced 8.8% and is heading for 10% by the end of the year. The combined bank should therefore cover its 8% short-term cost of capital. Eurohypo also has a good international spread, with only a quarter of its new business coming from Germany. And analysts suggest that its domestic property portfolio of €70 billion could benefit from an upswing after a ten-year property slump in Germany. Maybe it is not a bad time to buy.

More broadly, Klaus-Peter Müller, Commerzbank's chief executive, may be applauded for furthering the cause of banking consolidation in Germany, which has lagged behind the rest of Europe. This week UniCredit of Italy was due to take formal ownership of HVB, currently Germany's second-biggest bank. Postbank, a listed bank mostly owned by Deutsche Post, has all but taken over BHW, a union-controlled bank with 3.6m customers. And the state of Hesse said this week that it would change the law governing its publicly owned savings banks. These will be allowed to buy stakes in one another; and Landesbank Hessen-Thüringen, a bigger bank owned by the savings banks, Hesse and neighbouring Thuringia, will also be permitted to buy stakes in

savings banks. However, outsiders (including private-sector banks) will not be allowed in.

Has Mr Müller set his own potential predators to flight? Perhaps not, but he has surely wrong-footed them for now.

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Argentine debt

Calling the shots

Nov 17th 2005 | BUENOS AIRES
From The Economist print edition

State borrowers still have the upper hand over foreign bondholders

LIKE the gentler half of a good cop/bad cop routine, the province of Buenos Aires—32% of Argentina's GDP and 40% of its people—is doing its best to soothe foreign bondholders, just nine months after the national government savaged them with a 65% haircut on $80 billion-worth of defaulted bonds. The team from Buenos Aires—now on a road show to promote its own $3 billion restructuring—is offering a better, if still painful, deal: a 50% loss. Most observers think this is likely to be accepted by holders of more than 76% of the bonds—the province's target, and the take-up rate of the sovereign restructuring.

This forecast has less to do with any gratitude on bondholders' part than with the balance of power in the debt market since Argentina's harsh exchange. Although bondholders who held out in other recent sovereign restructurings did win further concessions, the options for those who refused Argentina's terms are few. In the spring a court in New York rejected one distressed-debt hedge fund's bid to delay the exchange. Even if other foreign courts rule against Argentina, they cannot force the government to pay. And the country's own judiciary is unlikely to smile on foreign holdouts when the $20 billion in claims they represent is worth about half a year's tax receipts.

Markets have proved as sympathetic to Argentina as the courts: once rating agencies were happy to declare the country out of default, lenders snapped up new bonds. And while the holdouts' home governments could try to persuade Argentina to reconsider, they have hardly made this a diplomatic priority. “It's very asymmetrical,” says Miguel Kiguel, a former national vice-minister for the economy. “The sovereign has a lot of power versus the bondholders. The lesson is, if you hold out, be ready for a long stakeout.”

The holdouts' best hope is probably the IMF, which says Argentina must develop a plan to address their complaints as a condition of rolling over the $4.4 billion it is owed in 2007. The government needs the money. Despite an ample primary surplus—ie, excluding debt-service costs—it faces a total shortfall of $2.7 billion in 2006 and $6.4 billion in 2007, estimates Fausto Spotorno, of Delphos Investment in Buenos Aires. Delaying payments to the Fund would obviate the need to dip into limited deposits or foreign-currency reserves.

The IMF's worries go well beyond the holdouts' plight. With inflation in double digits, it wants tighter monetary policy and a stronger peso. It also wants meaningful price increases for foreign-owned utilities, most of whose rates have been frozen since the 2001-02 financial crisis. Moreover, relations between the IMF and its debtor have become so chilly that the chances of a refinancing agreement look increasingly remote. Argentina's president, Néstor Kirchner, devoted much of his speech at the recent Summit of the Americas to bashing the Fund.

It is no wonder that so many creditors of Buenos Aires are prepared to settle. It is puzzling, though, that the risk of big losses after a default has bothered bond markets so little. This year

J.P. Morgan's emerging-market debt index is heading for a fourth double-digit return in a row. Although this has much to do with improving fundamentals, investors hungry for risky paper should perhaps ask who will call the shots if things take a turn for the worse.

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Commodities

Crouching trader, leaping prices

Nov 17th 2005
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How a big bad bet is pushing up the price of copper

ALL that remains is to sell the film rights. Liu Qibing, a trader handling China's strategic commodity reserves, allegedly shorted the vast quantity of 100,000-200,000 tonnes of copper, then vanished when prices moved against him. The stuff of latter-day legend, this briefly pushed an already upwardly mobile market into near-vertical ascent.

"Shorting" a commodity involves borrowing the commodity itself and selling it to someone else with the intention of buying more later to return to the lender. A trader only does this when he believes, with some confidence, that prices will fall. Since copper has gained more than 30% this year and more than 200% since 2003, it is reasonable to think it due for a drop. Plenty of other traders and speculators have bet that way too.

But the metal is not obliging them. The three-month contract on the London Metals Exchange (LME) was already trading at record levels on November 11th, closing at $4,105 per tonne. When the tale of Mr Liu broke on November 14th, rousing expectations that China would have to buy a lot of the red stuff to meet commitments, it closed $20 per tonne higher. Copper hit a new record price of $4,174 on November 15th, and moved higher still on November 17th.

Mr Liu's copper is due for delivery to LME-approved warehouses in December. Will it be there? China claimed last week to have 1.3m tonnes of the metal stockpiled, far more than most western analysts reckon it has. This week, it held its first copper auction ever, selling 20,000 tonnes and pledging to unload more on November 23rd. And there is talk that the State Reserve Bureau, for which Mr Liu was acting, has applied to export 200,000 tonnes this year.

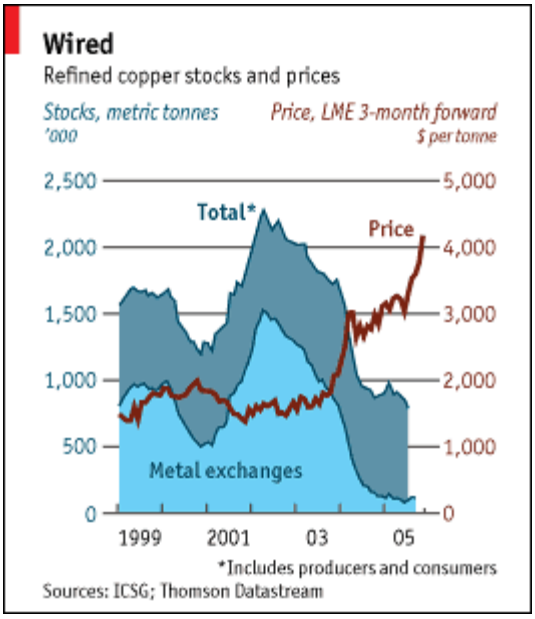
But this all sounds more like deliberate market-cooling before a purchase than like a surfeit of supply. Copper is scarce these days. Years of commercial underinvestment, together with work stoppages that grew more bitter as the copper price rose, have kept a lid on worldwide output. Last week Chile, the largest producer by far, lowered its output targets for 2005 and 2006.

Demand, meanwhile, was booming, until this year. And in fast-growing China, now the world's largest copper user, it is still increasing by leaps and bounds. The usual cushions of inventory and spare capacity have vanished: global stocks are depleted, as the chart shows. Mining companies should respond to this by investing in increased production. But the results will come, if at all, some years down the track.

The fall-out from Mr Liu's speculation-gone-wrong is hard to judge. If he assumed his positions last spring, as some

suggest, when copper prices were below $3,300 per tonne, it is possible that the losses now amount to $200m.

But more than money may be at stake. China was expected to liberalise its derivatives markets a touch next year. After this bruising brush with those outside, it may be disinclined to do so.



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Economics focus

Pumping up the spare tyre

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From The Economist print edition

The development of corporate-bond markets in emerging economies still has some way to go

FINANCIAL crises have a cruel way of revealing what an economy lacks. When many emerging markets suffered a sudden outflow of capital in the late 1990s, one painful lesson was that their financial systems had relied too heavily on bank lending and paid too little attention to developing other forms of finance. “The lack of a spare tyre”, said Alan Greenspan, chairman of America's Federal Reserve, in 1999, “is of no concern if you do not get a flat. East Asia had no spare tyres.” If a functioning capital market had existed, remarked Mr Greenspan, the East Asian crisis might have been less severe.

Developing deep and liquid corporate-bond markets, in particular, could make emerging economies less vulnerable. Companies wanting, say, to finance an expensive investment would ideally want to borrow long-term in local currency. However, local banks will frequently offer only short-term loans. Loans of longer maturities may be obtained abroad, but the spectre of “original sin”, or a country's inability to borrow funds in its own currency, means that such loans are likely to be in foreign money. An active local corporate-bond market would allow firms to issue debt securities that are a better match for the timing and currency of their cash flows.

Making progress, but could do better

In the past few years, the expansion of corporate-bond markets in emerging economies has been encouraging. Emerging Asia's corporate-bond markets were worth 7.1% of GDP last year, up from 4.3% in 1997. The relative value of Latin America's rose from 1.0% to 2.8%. This reflects the growth of firms' funding needs after the financial crisis, the increase in institutional investors' assets under management, declining interest rates and market reforms. Bank lending, still worth around 50% of GDP in Asia, remains dominant, but bonds have grown in importance.

However, progress has varied widely across countries. For instance, in Malaysia (38.2%) and South Korea (23.4%), the value of outstanding corporate bonds is bigger, relative to GDP, than in America (22%). The ratios in Chile (12.3%) and Thailand (12.2%) are not much below Japan's 16.9%. Elsewhere, the numbers are much smaller: 0.7% in Brazil and China; 0.4% in India. A study, published last month, for the Futures and Options Association, a British trade body, lists several barriers to the development of the corporate-bond market in China, perhaps the place with the greatest potential. These include authorisation of bond issues by “merit” and mandatory quasi-governmental guarantees, which hinder the development of a risk-based market.

Indeed, according to the International Monetary Fund's latest *Global Financial Stability Report* (from which the above data are taken) the growth of local corporate-bond markets slowed last

year: as firms' profits fattened, their financing needs lessened; and interest rates began to rise. So it may be that much recent growth was cyclical, and will be reversed.

One problem highlighted by the IMF is the growing gap between the demand for and supply of corporate bonds. Institutional investors' demand for “investible” securities has outpaced supply, which in most emerging economies is limited to bonds issued by a couple of dozen big firms. If the corporate-bond market is to grow further, medium-sized companies will have to issue securities; but for these to be acceptable to investors, corporate governance and transparency will have to improve.

The cost of issuing bonds is another obstacle. These take many forms: underwriting and registration fees, credit-rating costs, taxes and the time it takes to bring a bond to the market. One study found that the cost of issuing a bond in Mexico was about half as much as in Brazil or Chile, owing to expensive disclosure requirements in Brazil and a stamp tax in Chile, which makes issuing bonds dearer at home than abroad. That said, a reform of Chile's stamp tax in 2002, which allowed the cost to be spread over several issues, appears to have given the commercial-paper market a healthy fillip.

Secondary-market liquidity is critical, since it allows investors to buy and sell whenever they want at an observable, market-set price. However, in most emerging economies corporate bonds are concentrated in the hands of a few institutional investors that buy and hold these assets to maturity. Not only does this limit active trading but it also results in a one-sided market. Another problem is that corporate-bond issues tend to be small. Size does matter for liquidity, because when issues are large, big transactions are much less likely to move the price.

The availability of trading information is also important for improving liquidity and price discovery. Most bonds are traded not on exchanges but over-the-counter, and data on such transactions are not always available. Some bonds are traded only infrequently. The absence of price data creates particular difficulty for institutional investors that are required to mark their portfolios to market: investors in Mexico and South Korea have got around this by purchasing price quotes from independent vendors. A lack of hedging instruments also hinders liquidity by making investors shy of the underlying securities.

Finally, bondholders need adequate investor protection, probably more so than banks, since these dispersed individuals tend to have less bargaining power. Bankruptcy laws, corporate governance standards, and timely and sufficient disclosure of information are also important supports for confidence.

This list is by no means complete nor the set of prescriptions entirely new. But the message of the IMF's report does bear repeating. Developing corporate-bond markets is important for financial stability, both as a buffer when other funding sources run dry and to reduce mismatches in a firm's balance sheet. And the overall economy prospers too, as savings can find their way towards more productive investments.

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Infection

The usual suspects

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Some of the efforts to control bird flu could be usefully extended to tackle other emerging human diseases that come from animals

ONE billion dollars is a lot more than chicken feed. But this is what the World Bank believes is necessary to spend on controlling bird flu. Last week in Geneva, representatives from more than 100 nations seemed to agree; and hundreds of millions of dollars are likely to be pledged at a meeting in China next January.

So far, there have been just 64 confirmed human deaths from bird flu, although China this week announced that a further two people had died from the disease. Bird flu has been more costly to industry. The Food and Agriculture Organisation estimates the economic impact has been more than $10 billion. Samuel Jutzi, director of its animal-production and health division, says that a single large outbreak in 2004 cut GDP across South-East Asia by up to 1.5%.

What is focusing the minds of many at the World Bank and the Asian Development Bank are fears over what the costs might be if the virus were to turn into something that humans could easily transmit to one another. SARS, which killed 800 people, caused an economic loss of around 2% of East Asian regional GDP in the second quarter of 2003, according to a report from the Bank on November 8th. That is about $200 billion.

While it is impossible to predict the precise nature of the next influenza pandemic—an event that occurs about three times a century—it could last for up to a year. Milan Brahmbhatt, the Bank's leading economist for East Asia and the Pacific, therefore suggests that it might cost at least $800

billion.

Clearly, then, it is important to bring this strain of bird flu under control. The threat of an influenza pandemic will be reduced by the improvements in viral-strain surveillance, veterinary health care and laboratory services that are being proposed for bird flu.

The bigger picture

But it is also worth taking a broader look at diseases emerging from animals. The World Bank thinks it makes sense to take long-term measures to strengthen the institutional, regulatory and technical capacity for dealing with animal as well as human health because there are such a large number of animal-related pathogens emerging across the world.

Science has thus far counted 1,400 pathogens that affect humans. Mark Woolhouse and Sonya Gowtage-Sequeria from the University of Edinburgh have surveyed these and found that 13% are regarded as emerging (such as SARS or HIV) or re-emerging (such as tuberculosis, West Nile virus or malaria). Furthermore, the number of new pathogens emerging seems to be on the increase.

Dr Woolhouse argues that new pathogens cannot have been accumulating at the rate they are currently being discovered (one or two per year) because otherwise the world would be overrun with them. So either many of these new pathogens are flashes in the pan that will disappear as fast as they appear, or something different is going on in modern times.

Peter Daszak, of the Wildlife Trust in New York, also thinks that emerging diseases are on the increase. Research by Dr Daszak, in collaboration with researchers from Columbia University, shows that human pathogens have emerged or re-emerged 409 times in the past 50 years. There is a steep rise in such events over the decades—a trend that remained even when the group corrected the data for greater reporting in recent times.

Both researchers observe that most of these diseases come from animals; such diseases are known as zoonoses. Many are important because they are so lethal (Ebola is one such example). Furthermore, in a paper shortly to appear in the *Journal of NeuroVirology*, Dr Daszak and Kevin Olival, a biologist at Columbia University, will say that these new viruses tend to be serious. Half of the emerging viruses are characterised by inflammation of the brain or serious neurological symptoms.

Broadly speaking, it is change that is driving this emergence, whether that change takes place in human travel, agriculture, land use or the environment. Dr Woolhouse says the world is changing very fast in “ways that matter to pathogens and ways that give them new opportunities to infect new host species or get to new areas.” For example, people are travelling more between tropical and other regions. West Nile virus arrived in America in 1999 in New York. International travel led to the global spread of SARS in 2002.

Another driver is the rapid intensification of agriculture, now increasing in developing countries. Avian influenza is one example of a zoonosis associated with such intensification, as too are BSE in cattle, salmonella in chickens, Nipah virus in pigs and antibiotic resistance in food-borne bacteria. Other factors include urbanisation, the overcrowding of humans in poor, tropical countries and the movement and trade of animals.

Still, about half of the zoonotic pathogens have a wildlife reservoir. These can be spread by changes in land use that bring humans into closer and more regular contact with wild animals. Landscape fragmentation and ranching have been linked with Lyme disease and brucellosis, says

Dr Daszak. The Nipah virus is naturally found in bats but seems to have moved to Malaysian pigs with changes in stocking density. It has killed around 40% of the 265 people it has infected.

SARS, too, had an animal origin. In a recent paper in *Science*, a team of researchers led by Wendong Li at the Chinese Academy of Sciences in Beijing identified bats as the probable source. It is possible that bats were kept in the same live animal market in Guangzhou, China, where palm civets were also found to be carrying the SARS virus. A densely packed, mixed animal market where wildlife, domestic animals and humans mingle in less than sanitary conditions provides the ideal conditions for a virus to jump from one species to another.

If many of the factors responsible for the emergence of new diseases—such as international travel, intensification of agriculture and urbanisation—are likely to continue, how is the world to respond to the threat of new diseases? The answer seems to be to spend more money on animal and human health, as well as on the monitoring and surveillance of pathogens. With the world an increasingly connected place, achieving high standards in these areas would be a global public good.

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Vaccines

Fighting malaria

Nov 17th 2005
From The Economist print edition

A new vaccine shows promising results

Get article background

MALARIA kills one child every 30 seconds and is the leading cause of death in young children in Africa. The World Health Organisation estimates that 300m people catch the disease every year, killing 1m people and directly contributing to the deaths of a further 1.7m. Beyond the human toll, malaria has a significant economic impact. It costs sub-Saharan Africa $12 billion a year in lost GDP and consumes 40% of all public health spending in the region.

The simplest way to stop the disease is to prevent infected mosquitoes from biting potential victims. Spraying mosquito breeding grounds and using bed nets treated with insecticide have been tried. But mosquitoes are becoming resistant to the insecticides used. Moreover, scientists are finding increasing resistance to drugs that have been mainstays of malaria treatment. A vaccine would be welcome.

Experimental tests on 1,442 children living in Mozambique now indicate that an effective vaccine might be possible. The children were given three shots of a candidate vaccine in 2003, at which time they were between one and four years old. Some 18 months later, the cases of life-threatening malaria in these children were halved and, overall, clinical cases were cut by 35%. The results—which are similar to those reported at the six-month stage and suggest that the vaccine does not become less effective over time—were presented at the Multilateral Initiative on Malaria's conference in Yaoundé, Cameroon, and published online in a British medical journal, the *Lancet*, on November 15th.

Producing a vaccine against malaria has proved particularly challenging. Existing vaccines work against viruses and bacteria, but the parasite that causes malaria, *Plasmodium falciparum*, is a more complex type of organism with a complicated life-cycle. After someone is bitten by an infected mosquito, the parasites first infect his liver, where they breed. After a week, they break out of the liver cells and enter the bloodstream. Finally, they develop into a form that can infect any mosquito that bites their host, thus restarting the whole process.

The candidate vaccine used in this trial targets the immune system's response to the stage when the parasite is injected by the infected mosquito. Given that this is just one stage in the malaria parasite's life cycle, its success has taken some scientists by surprise. Because the parasite is genetically complex, many had doubted a vaccine based on a single antigen would work. The fact it does suggests that an improved shot, using multiple antigens or additives to boost the immune response, might be even more effective.

The candidate vaccine—called Mosquirix or RTS,S/AS02A—was developed by GlaxoSmithKline Biologicals in Rixensart, Belgium, which conducted the experimental trials with researchers from

the University of Barcelona, in Spain, and the Health Ministry in Mozambique. It is still several years from market but, if all goes well, the drug company could file for regulatory approval in 2010, suggesting the vaccine would be commercially available by 2011.

GlaxoSmithKline has promised to make Mosquirix available at low prices in developing countries. Even so, serious amounts of money will be needed to ensure it reaches the millions who need it. Last month, the Bill and Melinda Gates Foundation gave a $108m grant to support clinical development of the vaccine but more is needed.

Reducing infection with the malaria parasite could also help tackle the other big killer faced by African people, AIDS. A study conducted in Cameroon found that babies born three months after the rainy season were more likely to be infected with HIV—the virus that causes AIDS—than babies born at other times of the year.

Anfumbom Kfutwah of the Pasteur Centre in Cameroon has found that malaria infection boosts production of a substance that might significantly increase the replication of HIV in the placenta. Research is under way into exactly how the malaria parasite interferes with the placenta's normal action to protect the fetus from infections. But if solid evidence of a link does emerge, health authorities would be well advised to treat pregnant women carrying HIV with anti-malarial drugs, to prevent the virus from being passed from mother to child.

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Computing

Egalitarian engines

Nov 17th 2005
From The Economist print edition

A paper questions whether search engines make popular sites more so

THE winner takes all, it is widely supposed in computing circles. Indeed, geeks have coined a word, “Googlearchy”, for the way in which search engines encourage web traffic towards the most popular sites. The belief that search engines make popular websites ever more popular, at the expense of other pages, is now being challenged by research.

The apparently magical ability of search engines such as Google to return relevant websites even when given the sketchiest of clues by the person entering a query relies on the use of mathematical recipes or algorithms. Google works by analysing the structure of the web itself. Each of its billions of pages can link to other pages and can also, in turn, be linked to by others. If a page is linked to many other pages, it is flagged up as being important. Furthermore, if the pages that link to this page are also important, then that page is even more likely to be important. The algorithm has been made increasingly complex over the years, to deter those who would manipulate their pages to appear higher in the rankings, but it remains at the heart of Google's success.

Google is not alone in this. Many search engines take account of the number of links to a website when they return the results of a search. Because of this, there is a widespread belief among computer, social and political scientists that search engines create a vicious circle that amplifies the dominance of established and already popular websites. Pages returned by search engines are more likely to be discovered and consequently linked to by others.

Not so, according to a controversial new paper that has recently appeared on arXiv, an online collection of physics and related papers. In it, Santo Fortunato and his colleagues at Indiana University in America and Bielefeld University in Germany claim that search engines actually have an egalitarian effect that increases traffic to less popular sites.

The researchers developed a model that described two extreme cases. In the first, people browsed the web only by surfing random links. In the second, people only visited pages that were returned by search engines. The researchers then turned to the real world. They plotted the traffic to a website—measured as the fraction of all page views made in a three-month period—against the number of incoming links made to that website. To their surprise, they found that the relationship between the two did not lie between the extremes suggested by their model but somewhere completely different. It appears to show that the supposed bias in favour of popular pages is actually mitigated by the combination of search engines and people following random links.

The paper, which was posted on arXiv for comment, has now come under attack. Matthew Hindman, a political scientist at Arizona State University, says that the data used in the research are pretty shoddy. Moreover, he says, the discrepancy between the model and the real world does not necessarily come from the role of the search engine.

Whether Dr Fortunato's thesis stands the test of time remains to be seen. That it is tested must be a good thing.

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Optics

Focusing on perfection

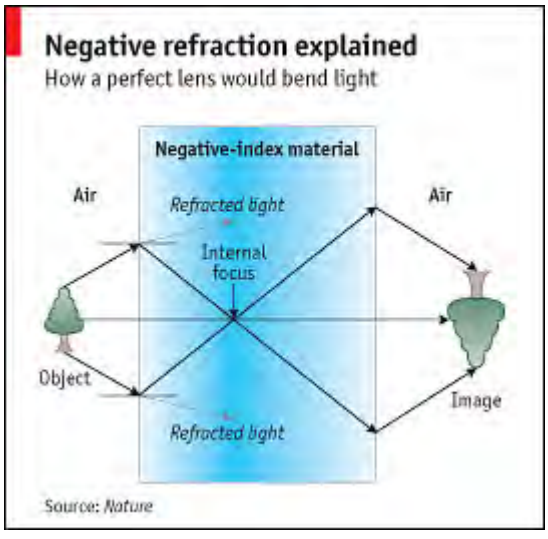
Nov 17th 2005
From The Economist print edition

Nanostructures could be used to build perfect lenses

GREAT ideas are often both simple and elegant. Such was the suggestion made five years ago by Sir John Pendry of Imperial College London that a perfect lens—free from any distortion or loss of information—could be created if it were possible to build materials that possessed certain surprising properties. On November 17th, researchers unveiled a significant step towards making such materials for visible light.

When a ray of light crosses a boundary, such as that between air and a block of glass, its path is altered. In the case of air and glass, the light is bent towards the boundary. It is this bending, along with using a curved surface, that is exploited to create the traditional lenses used in cameras, telescopes and microscopes. Conventional lenses can never be perfect because they always fail to refocus the light that comes from the object under investigation in the form of decaying waves. The image thus cannot contain the information about the object carried by these waves.

The extent to which the light is bent is described as the material's refractive index. This is partly determined by the material's response to the electric field of the light and partly by its response to the magnetic field. In the case of glass, its refractive index is about 1.4; this is almost exclusively dictated by the electrical response of the glass. If the light were bent the other way, that is, away from the boundary, the material would have a refractive index of less than one. If the light were bent back on itself, in a hairpin shape, the refractive index would be negative. Sir John realised that if the refractive index were negative—thought by many to be a physical impossibility—it would be possible to create a perfect lens. His insight was so original, he received a knighthood for it.



Geometrically, the idea is not so difficult to visualise (see diagram). In a material with a refractive index of -1, the angle of deflection of the light ray would be equal to the angle of incidence but in the opposite direction. The same thing would happen at the second boundary. A flat slab of material would thus send all the rays originating from a single point back to a mirror-image point on the other side of the slab. It would act as a lens without requiring any of the specially curved surfaces that normal lenses demand. Moreover, it would not face the problems that constrain the accuracy of curved lenses and so could make a perfect lens.

Unfortunately, the only material with a negative refractive index to be developed so far worked

only at wavelengths very much longer than those of visible light. However, writing in the journal *Nature* this week, a team of researchers led by Alexander Grigorenko of the University of Manchester moved a step closer towards creating a material with a negative refractive index that works for visible light rays. Their aim was to create the elusive magnetic response required to turn the refractive index negative.

The researchers covered a small glass plate with tiny gold pillars, each about 100 nanometres (a nanometre is a hundred millionth of a metre) high. They found that the structures acted like bar magnets when light shone on them, cancelling the magnetic component of the incident light ray. In other words, the material had negative permeability, one of the two determinants of a negative refractive index.

Further work is necessary to create a material that negatively refracts visible light. But the result is a significant step towards creating a perfect lens that could focus images to show features smaller than the wavelength of light itself.

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Saudi Arabia

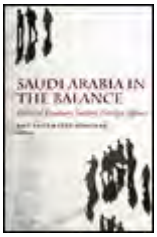
The shock of the new

Nov 17th 2005
From The Economist print edition

Rich, secretive and proud to be different, Saudi Arabia has always aroused a mix of curiosity and unease, as five new books on the kingdom show

Economy, Society, Foreign Affairs

Edited by Paul Aarts and Gerd Nonneman

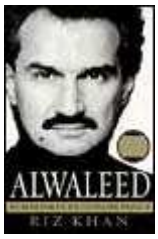


Hurst; 462 pages; £20

Buy it at
Amazon.co.uk

Alwaleed: Businessman, Billionaire, Prince

By Riz Khan



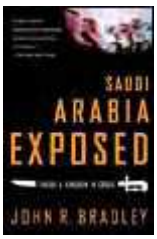
William Morrow; 432 pages; $26.95. HarperCollins; £20

Buy it at
Amazon.com
Amazon.co.uk

Reuters

Saudi Arabia Exposed: Inside a Kingdom in Crisis

By John R. Bradley

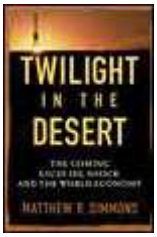


Palgrave Macmillan; 224 pages; $22.95

Buy it at
Amazon.com
Amazon.co.uk

Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy

By Matthew R. Simmons

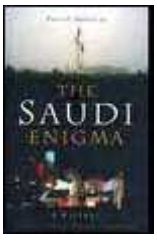


John Wiley; 422 pages; $24.95 and £15.99

Buy it at
Amazon.com
Amazon.co.uk

The Saudi Enigma: A History

By Pascal Ménoret



Zed Books; 257 pages; $75

Buy it at
Amazon.com
Amazon.co.uk

Saudi Arabia in the Balance: Political

Get article background

THE past few years have uncapped an unprecedented gush of anxious, often hostile writing about Saudi Arabia. Two statistics explain why. First, three-quarters of the September 11th hijackers were Saudis, and second, the kingdom contains a quarter of the world's known oil reserves. Those numbers imply that the main source of the most important global commodity, and one that has become in shorter supply, is a land that also incubates monsters; in other words, the world economy relies increasingly on a country that may be dangerously unreliable.

Now consider a worse scenario. What if that Saudi oil was really not so abundant after all? This is the possibility proposed by Matthew Simmons, a respected Texan energy investment analyst, in “Twilight in the Desert”. Mr Simmons's argument, based on careful correlation of the surprisingly sparse facts available on Saudi oil production, is simple. The kingdom has produced around 100 billion barrels, and claims to hold 260 billion more. This figure has been widely accepted, yet the last time outsiders estimated Saudi reserves, before the nationalisation of the oil industry in the 1980s, they were reckoned at less than half this amount.

Reserve estimates often rise, since new finds and better drilling methods can make more oil extractable than was first thought. But the vast bulk of Saudi production comes from a handful of “supergiant” fields, most of which have been pumped for decades. No other fields of remotely similar size have been found since the 1970s, or are likely to be. Elsewhere in the world, supergiant fields have tended to slip into sudden, steep declines. In the absence of reliable data, Mr Simmons tracks scientific papers published by Saudi oilmen to show that the issues concerning them are similar to the challenges faced by managers of declining fields elsewhere. One reason for this, Mr Simmons suggests, may be that Saudi Arabia's mother-lodes are, or soon will be, facing the same fate as lesser oilfields.

Saudi officials vigorously dispute Mr Simmons's hypothesis. As well they might, since oil reserves represent money, power and geopolitical influence for the kingdom. Yet having less oil may, ultimately, be of less concern to the Saudis, who will simply reap higher prices, than to customers competing for the stuff. Over the past year alone, high demand and wobbly supply have boosted the value of Saudi oil exports by over 50%, to more than $160 billion, without much change in production levels. As recently as five years ago, by contrast, oil revenues were bumping along at less than $40 billion.

For the medium term, then, the kingdom's problems lie not underground, but on the surface, with that question of “reliability”. And here lurks another paradox. Despite much criticism, most of it justified, the kingdom has historically proven reliable to a fault as a friend to the West, and to America in particular. Indeed, says Pascal Ménoret, a French scholar whose incisive primer on Saudi history, “The Saudi Enigma”, is a useful counter-narrative to populist Saudi-bashing, it is the very qualities the Saudis are now berated for, such as lack of fiscal transparency or political accountability, as well as their religious zeal, that long made them useful allies.

As Rachel Bronson recalls, in one of the many illuminating essays in “Saudi Arabia in the Balance”, the Saudis dutifully funded numerous shady causes at America's bidding. So reflexive did American “tin cupping” become that, shortly after the fall of the Berlin wall, one envoy to Riyadh was instructed to ask the Saudis to buy tonnes of surplus Polish ham and give it to Russia, to help wean those countries from communism.

The end of the cold war brought a natural divergence of interests. Both Saudis and Americans were slow to see this before the shock of September 11th 2001. Since then, Saudis have lamented America's clumsiness in making Muslims feel they are the targets of its war on terror, while Americans have angrily charged the Saudis with propagating the bigotry that feeds Islamist terrorism.

But as Paul Aarts, who co-edited the essays in “Saudi Arabia in the Balance” points out, America and the kingdom are still “handcuffed” by mutual interests, such as keeping both world oil markets and the Middle East stable. In fact, a new joint interest emerged in May 2003, when al-Qaeda militants began a series of attacks inside the kingdom. Determined, for its own sake, to uproot extremism, and armed with the moral weight of its control over Muslim holy places, the Saudi government has become a crucial ally in the global struggle against violent Islamist radicalism.

But will the ruling House of Saud itself survive? Both the structure of the Saudi state and the nature of the internal pressures it faces can be reasons for pessimism. Madawi al-Rasheed, a Saudi scholar, suggests that the family which unified the kingdom 80 years ago has now become a “headless tribe”, with at least five factions, grouped around ageing princes, vying for power. This gerontocracy sits atop a society in stress, where money, in the absence of constitutional tools or intellectual freedom, has been the only buffer against wrenching and rapid change.

Young Saudis, schooled to accept Wahhabist Islam as the sole template for existence, yet increasingly exposed to a worldlier world, are particularly torn between urges to conform and rebel. Some choose the path of religious excess. Others suffer silently within what John Bradley, a British journalist and author of “Saudi Arabia Exposed”, a plaintive memoir of two years spent working for a Jeddah daily, calls “the immense boredom that hangs over Saudi Arabia like a great toxic cloud.”

Yet the consensus of informed opinion seems to be that most Saudis, and—at last—even their rulers, are thoroughly aware of the need to adapt, reform and open up to the world. The question is no longer whether to change, but how fast to go about it, says Waleed bin Talal, the subject of a dull but, one hopes, richly authorised biography by Riz Khan, a former CNN journalist. Hardly a typical Saudi, the mercurial, multi-billionaire Prince Waleed nevertheless captures the essence of his country's unique experiment: “Saudi Arabia Westernised? Never! Modernised? Definitely!”

Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy.
By Matthew R. Simmons.
John Wiley; 422 pages; $24.95 and £15.99

The Saudi Enigma: A History.
By Pascal Ménoret.

Zed Books; 257 pages; $75

Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs.
Edited by Paul Aarts and Gerd Nonneman.
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Alwaleed: Businessman, Billionaire, Prince.
By Riz Khan.
William Morrow; 432 pages; $26.95.
HarperCollins; £20

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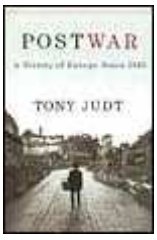
Europe after 1945

Patchwork politics

Nov 17th 2005
From The Economist print edition

TONY JUDT decided to write “Postwar” while changing trains at Vienna's Westbahnhof terminus in December 1989. One historical era was ending and another was about to begin. Mr Judt, a Londoner who was educated at Cambridge and in Paris, and who is now professor of European Studies at New York University, believes that 1989 marked the end of the legacy of the second world war. The 44 years that followed were, in a sense, an “interim age: a post-war parenthesis, the unfinished business of a conflict that ended in 1945 but whose epilogue had lasted for another half century.”

Postwar: A History of Europe Since 1945
By Tony Judt



Penguin Press; 964 pages; $39.95.
William Heinemann; £25

Buy it at
Amazon.com
Amazon.co.uk

If the first world war destroyed old Europe, the second, Mr Judt believes, created the conditions for a new, non-ideological Europe. The grand ideas which had shaken the continent since the French Revolution were now dead. All that was left was “the promise of liberty”, a promise fulfilled in western Europe in 1945, but which the rest of Europe had to wait for until 1989.

Europe had proved unable to liberate itself from National Socialism; nor could it keep Communism at bay unaided. It relied for its freedom and security upon the benevolence and goodwill of America. The movement for European unity, Mr Judt believes, “was grounded in weakness, not strength”. It was because Europe's influence was declining that it began to unite; and it was because Britain did not, in the 1950s, see its position in that light, that it did not join the European movement.

General de Gaulle famously had a “certain idea of France”. Mr Judt has a “certain idea of Europe”, a community of values whose system of inter-state relations is a model to be copied, rather than, as in the past, a warning to be avoided. For Europe shows the world that nationalism is obsolete. Mr Judt does not face up to the problem that Europe's virtue is bought largely at the price of loss of influence. How many divisions has the pope, Stalin once asked. The same question may be asked of Europe.

Mr Judt also argues that the new Europe, with the significant exceptions of the Soviet Union and Yugoslavia, was ethnically homogeneous. The peace settlement after the first world war, based as it was on Woodrow Wilson's principle of self-determination, had created states in central and eastern Europe with large minority populations. Post-second world war Europe was built out of the rubble of Nazism and Communism. “Hitler and Stalin between them had blasted flat the demographic heath upon which the foundations of a new and less complicated continent were then laid.”

Europe is not the same pre-war melting pot, but is composed instead of “hermetic national

enclaves". Minorities have been either expelled, as with the Germans from Poland and Czechoslovakia after 1945, or, as with the Jews, murdered. Mr Judt is particularly good on the centrality of the Holocaust to the new Europe. In a moving epilogue, entitled, "From the House of the Dead", he declares that "the recovered memory of Europe's dead Jews has become the very definition and guarantee of the continent's recovered humanity." The new Europe remains mortgaged to its terrible past. That is why, he concludes, the European Union "may be an answer to history, but it can never be a substitute."

Yet, as Mr Judt, himself shows, the nations of western Europe have become far less hermetically sealed or ethnically homogeneous than in 1945. Immigration and asylum have given rise to new and acute cultural cleavages; and it is precisely because the nations of Europe have failed to become genuine melting pots that so much of European politics now revolves around issues of multiculturalism.

Mr Judt deals with grand and important themes. But, after announcing them in a powerful introduction, he proceeds to tell us at great length mainly what we know already. His discussion is chronological not thematic, and the main ideas get lost in what is now a familiar story, although the story is told with some skill. Nevertheless, few books of nearly 1,000 pages justify their length, and "Postwar" is no exception. When Lord Beaverbrook was sent a 700-page biography of his fellow press magnate, Lord Northcliffe, he dispatched it unread to the University of New Brunswick, saying, "It weighs too much." Sadly, "Postwar" is likely to suffer the same fate.

Postwar: A History of Europe Since 1945.
By Tony Judt.
Penguin Press; 964 pages; $39.95.
William Heinemann; £25

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Winning the Ashes

Great balls of fire

Nov 17th 2005
From The Economist print edition

AFP

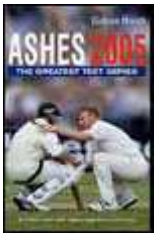
Young Siegfried

SIMON HUGHES tells a good story in one of the mountain of cricket books that is piling up in bookshops this winter. In the course of an evening service, a church organist was listening on an earpiece to the climax of one of the Test matches between England and Australia. When he heard that England had won, he burst into the “Hallelujah Chorus”.

The only surprise is that members of the congregation were not at home watching television. The summer's big news—sometimes the only news—was England's win in a five-match series against Australia, its first in 18 years. England had regained the Ashes, a tiny terracotta urn which contains the ashes of a bail, and immortalises Australia's first win in England, in 1882. Publishers can spot a bandwagon and, within six weeks, nearly a dozen books were in the shops.

Speed does not always pay dividends, however. Some of these books, though it is not obvious which, will lose money. Contemporary reports need strong personalities to sustain them. Gideon Haigh and David Frith meet this requirement. Both are English by birth and Australian by upbringing, though by no means impartial. Both wanted England to win. Mr Frith is an historian and provides the long perspective on Australia's defeat. Mr Haigh, the best read of cricket writers, gives us wit as well as

Ashes 2005: The Greatest Test Series
By Gideon Haigh



Aurum Press; 220 pages; £9.99

Buy it at
Amazon.co.uk

Battle for the Ashes
By David Frith

Ebury Press; 256 pages; £14.99

Buy it at
Amazon.co.uk

Ashes Victory: The Official Story of the Greatest Ever Test Series in the Team's Own Words
By the England Cricket Team

insight.

“Ashes Victory”, an account which draws on interviews with the England players done at the climax of the summer, is a first draft of their memories of an absorbing summer. Perhaps the banalities will eventually be edited out. “England's Ashes”, a compilation of the coverage in the *Daily Telegraph*, will benefit from being put aside to mature for a few months, although Phil Brown's excellent photographs are already worth lingering over. Shame, though, that he receives no credit on the contents page. Mr Brown's photographs also appear in Ian Stafford's rather detached “Ashes Fever”, though they are less well displayed.

England's two greatest heroes were Andrew “Freddie” Flintoff, and the captain Michael Vaughan. Mr Vaughan, in “Calling the Shots”, says that England deliberately selected young players who had no fear. Mr Flintoff was England's Young Siegfried, so it is no surprise that in “Being Freddie” he declares that his coach was not much help: “I'm not interested in the technical approach. I don't like breaking things down and analysing them.” To play the part with conviction, it turns out that he needed to be prodded by a sports psychologist who concentrated more on self-belief than technique: “He got me to try and stop over-complicating things and just go out there and play.” Both books are from Hodder & Stoughton, which has had an unerring eye for the cricket bestseller. Whether it can pull off two simultaneously is questionable. Mr Flintoff's is the more engaging.

But the best book about the series is a surprise. Duncan Fletcher, a refugee from Zimbabwe who is England's coach, has a deserved public reputation as a taciturn, unsmiling figure. “Ashes Regained” reveals a man who is passionate, thoughtful and considerate. It is a delightful surprise.

We learn why Kevin Pietersen, the explosive South African import, drops catches. “It appears that Mr Pietersen's problem is over-enthusiasm. When the ball leaves the bat he is on the move when his head should be still and his eyes level, ready to take the catch.” Mr Fletcher's coaching style is seen at its best in the care he took over Andrew Strauss, England's promising young batsman, in whom he detected a fatal technical flaw against the best spin bowling. When Mr Strauss declared he was unworried, Mr Fletcher did not impose his view. Events proved him right; Mr Strauss learned a new technique so well that he made two significant scores of more than a hundred in the last three Tests.

Mr Fletcher says he thought England would win the Ashes when Ricky Ponting, Australia's captain, lost his temper in the fourth Test in Nottingham. “The biggest test of the summer was whether [England] could match [Australia] mentally,” he writes. At that moment, he realised that they had.

The most entertaining of these quick cricket books is Mr Hughes's “Morning Everyone”, an account of his life as television's cricket analyst. Mr Hughes, a former first-class cricketer, knows his game and has a keen ear for conversation among the commentators and the players. He quotes Mr Vaughan: “Technique's a load of bollocks.” Poor Mr Fletcher. Mr Hughes's previous books show that he is happiest when he is writing about himself. Fortunately, there is plenty of him here.

Orion; 208 pages; £17.99

Buy it at
Amazon.co.uk

England's Ashes
By Derek Pringle

Harper Sport; 192 pages; £17.99

Buy it at
Amazon.co.uk

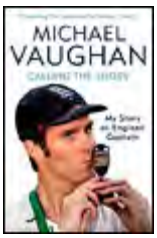
Ashes Fever: How England Won the Greatest Ever Test Series
By Ian Stafford

Mainstream Publishing; 224 pages; £16.99

Buy it at
Amazon.co.uk

Calling the Shots: The Captain's Story
By Michael Vaughan

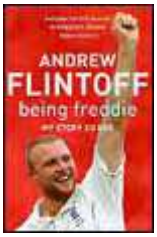
Ashes 2005: The Greatest Test Series.
By Gideon Haigh.
Aurum Press; 220 pages; £9.99



Hodder & Stoughton; 270 pages; £18.99

Buy it at
Amazon.co.uk

Being Freddie: My Story So Far
By Andrew Flintoff



Hodder & Stoughton; 315 pages; £18.99

Buy it at
Amazon.co.uk

Ashes Regained: The Coach's Story
By Duncan Fletcher

Simon & Schuster; 224 pages; £12.99

Buy it at
Amazon.co.uk

Morning Everyone: A Sportswriter's Life
By Simon Hughes

Battle for the Ashes.
By David Frith.
Ebury Press; 256 pages; £14.99

Ashes Victory: The Official Story of the Greatest Ever Test Series in the Team's Own Words.
By the England Cricket Team.

Orion; 208 pages; £17.99

Orion; 337 pages; £16.99

Buy it at
Amazon.co.uk

England's Ashes.
By Derek Pringle.
Harper Sport; 192 pages; £17.99

Ashes Fever: How England Won the Greatest Ever Test Series.
By Ian Stafford.
Mainstream Publishing; 224 pages; £16.99

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By Simon Hughes.
Orion; 337 pages; £16.99

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Modern composing

Maestro Marsalis

Nov 17th 2005
From The Economist print edition

Wynton Marsalis marries jazz and classical music like no one else

SOME years ago, surveying the historic divide between classical music and pop, a critic observed, “Jazz, once the arch-fiend threatening the whole fabric of musical society, is now allowed to be respectable, as a sort of first cousin to serious music who prefers to live apart.”

The view of jazz as significant but ultimately separate has stubbornly defied attempts to bring it into the mainstream of high musical culture. Acknowledged masterpieces, such as the concert works of George Gershwin, are still regarded as lightweight—entertaining but not illuminating—just as Gershwin himself was once described as representing “genius, but genius limited and yearning.”

All the same, since its first full-blown appearance on the musical scene around the first world war, jazz has inspired classical composers to try to harness its energy, spontaneity and invention for the concert hall. And not just in America: the first classical work to adopt a jazz idiom was by a Frenchman, Darius Milhaud, whose “La Création du Monde” of 1923 preceded Gershwin's famous “Rhapsody in Blue” by a year. But despite such occasional successes, a true jazz-classical synthesis has been thwarted by the different characters of the genres. It takes a very considerable musician to understand and master both the deep, complex structures of the classical tradition and the no less demanding disciplines of jazz, with its emphasis on improvisation, swing and spur-of-the-moment creativity.

Which accounts for the interest aroused recently in British musical circles by a work by an American trumpeter-composer, Wynton Marsalis. His 1999 symphony, “All Rise”, was recently given its European premiere by the London Philharmonic Orchestra, conducted by an eminent German maestro, Kurt Masur, in combination with Mr Marsalis's own Lincoln Center Jazz Orchestra, from New York. A vast and vastly ambitious 12-movement piece, it uses the full resources of two ensembles, as well as a vocal chorus.

Mr Marsalis is an ideal candidate for such a daunting project, since it reflects the range of his achievements. Uniquely, he has been honoured both for his jazz and his classical trumpet playing, winning Grammy awards for recordings in both fields in the same years. But his deepest allegiance is to jazz—he is artistic director of Jazz at Lincoln Center—and it was hearing one of Mr Marsalis's pieces for his own band that prompted Mr Masur to propose that he attempt the leap to full-scale orchestral composition.

The result of Mr Marsalis's particular genius is remarkably assured and accomplished, a work in which the two idioms, their colours and capacities are truly intertwined, without being broken up into self-conscious patches of pastiche. Sections and soloists from orchestra and band are integrated or allowed to shine with their own distinctive lustre, according to the effect Mr Marsalis intends. Improvised solos may be supported by banks of strings while the jazz rhythm section can

pick up the whole orchestra and make it swing.

Perhaps most remarkable is Mr Marsalis's command of the vocabularies of the two traditions, so that at various points one is reminded of Bela Bartók, Igor Stravinsky and even Gustav Mahler, at others of the rich palette of Duke Ellington and the joyous abandon of New Orleans. But his overall coherence of vision and conviction create a unified musical experience. “All Rise” was reviewed by critics of both jazz and classical persuasions, who concurred that it was a rare and improbable kind of masterpiece that straddled boundaries and categories, affirming that in the polymorphous culture of the 21st century, genres matter less than quality, imagination and pleasure.

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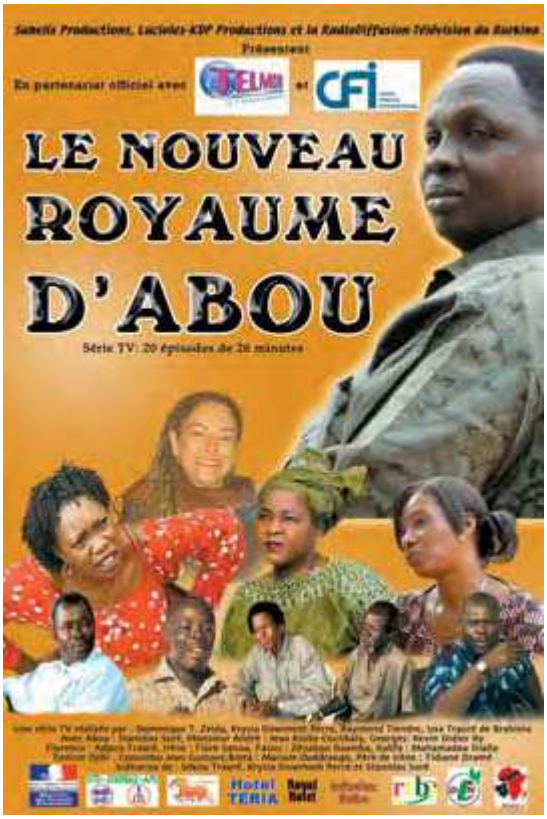
African soaps

Polygamy beams

Nov 17th 2005 | OUAGADOUGOU
From The Economist print edition



They saw, they conquered

Africans love imported soaps so much they've made one of their own

HALF past ten on a Saturday night, and outdoor tellies are blaring. Super-size beer bottles run dry, as service at pavement bars across the dusty capital of Burkina Faso nosedives. The reason? It's the latest episode of “Le Nouveau Royaume d'Abou”, and everyone is transfixed by a sitcom that is taking the country by storm.

For years, soaps and sitcoms shown on African TV channels have come (badly dubbed into French) from Brazil, Mexico and America. This year has seen a flowering of African shows for African audiences.

Sékou Traoré, scriptwriter and co-producer of the 20-episode series, is a devotee of “Absolutely Fabulous” and “Friends”, and draws heavily on hip western references and multiple storylines to treat home-grown themes. Abou is a dysfunctional hero caught in a web of family and other commitments. A good Muslim, he has two wives and numerous children who fight constantly for

his and each other's attentions. Throw in an African mistress, and, following a brief trip to Europe, a Swiss mistress who turns up in Burkina intent on spending time with her man, and the plot thickens like *foufou*.

In a country with a 12.8% literacy rate, television is a good way of mixing education and entertainment. Cinema tickets, at 1,000 CFA francs ($1.78) each, are prohibitive. African TV series, filmed at speed on tight budgets with digital equipment, reach out far more cheaply.

The first “Abou” series was made on a shoestring. The current series cost a handsome 8m CFA francs per episode, with a quarter of the funding coming from a francophone television channel, Canal France International (CFI), and a quarter from Telmob, a local mobile-phone company. The state television company donated equipment in exchange for free transmission. A third series is already being developed, and 30 new, longer episodes will start shooting in December.

CFI has bought the rights to sell “Abou” to dozens of francophone countries, and it is already screening in neighbouring Benin. Things don't stop there, though. Mr Traoré is negotiating a deal to beam Abou's polygamous trials and tribulations to China. As “Neighbours”, a popular Australian soap celebrates its 20th anniversary on British screens, African television finally has something of its own to celebrate.

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Obituary

John Fowles

Nov 17th 2005
From The Economist print edition

Corbis

John Fowles, an English novelist, died on November 5th, aged 79

SLEEPLESS nights never troubled John Fowles. He welcomed them. In particular he liked the semi-conscious haze between slumber and waking, when the sights and sounds of dreams still hover within reach and can be captured. It was while he was in this state that his novels—which he always spoke of as independent beings, knowing and mysterious—would suddenly reveal themselves to him. He called it the hypnopompic.

In one such mood Mr Fowles's imagination conjured up a dark figure, a woman with grey eyes and lustrous red-brown hair, dressed in a hooded cape and staring out to sea from the Cobb, the long sea-wall at Lyme Regis, on England's south coast. “Poor Tragedy”, he imagined the townsfolk called her. In the tale he would eventually weave round her, she was an educated Victorian farmer's daughter who claimed to be a fallen woman in order to shake off the conventions of her time.

It is hard to exaggerate the stir that “The French Lieutenant's Woman” created when it came out in 1969, at a time of great social, political and sexual upheavals. The passion of the writing leapt off the page. But it was also a spiritual adventure story, written with a fervour that pitched its mid-Victorian characters across great shifts of time, culture and belief and, in the end, provided as good an exploration of the courage it takes to be truly free as can be found anywhere in fiction.

On the one hand, the book recreated the incongruous nature of the Victorians, with their thirst for

scientific archaeology and their sensuality, hidden beneath repressive corsetry; but it also expressed Mr Fowles's conviction that the mysterious was the source of all human excitement. From one chapter to another, the reader could never be quite sure what was going to happen next. The omniscient author would pop up in odd places, such as railway carriages, to observe his hero, or suddenly digress to discuss how characters so often seek (and find) their own fates in novels. He would disrupt his readers' preconceptions by making observations, from the vantage point of Lyme Regis in Queen Victoria's day, about the effect of history on the 20th century. Lastly, he offered three different endings, which alone gave the novel its post-modern chic. The road from Thomas Hardy and George Eliot to the modern pyrotechnics of David Mitchell's “Cloud Atlas” passes through Mr Fowles and no one else.

Such fearless experimentation won “The French Lieutenant's Woman” its highbrow literary reputation, although it was the tight plotting, the far-sighted heroine and the rolling suspense of a secret that seems always about to be revealed that made it such a success. And yet there was a lesson in it, too. The book sold so well that it set Mr Fowles free to write for no one but himself. But it also marked the beginning of his decline as a novelist.

Beside the sea

Mr Fowles was born in 1926 in the Essex suburb of Leigh-on-Sea, the son of a cigarmaker and tobacconist. His birthplace, he would later say, was “a small town dominated by conformism—the pursuit of respectability.” At the start of the second world war he was evacuated to Devon, where his passion for England's West Country began.

From the start he was marked out as clever, winning scholarships throughout his school years. At the end of the war he joined the Royal Marines, but a chance encounter with the father of the future Labour leader, Michael Foot, persuaded him that no intelligent man should stay in the forces. He went to Oxford to read French and became a teacher, first in France and then on the Greek island of Spetse, where he studied the ancient myths and grew to love what he always called *agria Ellada*, the wild Greece. There, in 1952, at the start of the long gestation of his cult novel, “The Magus”, Mr Fowles met and fell in love with Elizabeth Christy, who was married to a fellow-teacher. She became the inspiration for his greatest heroine, the French lieutenant's Sarah Woodruff.

In 1963 Mr Fowles sent his first manuscript, “The Collector”, to Jonathan Cape. The publisher immediately asked for more. After ruminating on it for almost 15 years, Mr Fowles turned in a work that was full of Shakespearean and Homeric allusion, the story of an English teacher in Greece who falls under the sway of a fabulously wealthy magician, the Magus of the title, and his parallel fantasy universe.

The success of both books allowed Mr Fowles to give up teaching and leave London. He and Elizabeth chose Lyme Regis, where they moved first to a farmhouse on the Undercliff, the crumbling stretch of the Dorset coast where the heroes of “The French Lieutenant's Woman” began their secret affair, and then to a large Regency house in the town itself.

Success brought a constant struggle against distraction, particularly the temptations of Hollywood. Three of Mr Fowles's books were made into films, and one of his later novels, “Daniel Martin”, was about screenwriting. In 1988 he suffered a stroke that impaired his memory. A far worse blow was Elizabeth's death from cancer six months later. Although he eventually married a second time, the inspiration of his dreams had deserted him; he never wrote another novel.

Overview

Nov 17th 2005
From The Economist print edition

The **euro area** economies seem to be waking up at last: GDP grew at an annualised rate of 2.6% in the third quarter. However, output was still only 1.5% above its level a year earlier. Germany, France and Spain enjoyed the fastest growth, with annual rates of 2.5-3.5%, while Italy and the Netherlands continued to lag behind.

Europe's stronger growth failed to support the single currency. The euro hit a two-year low of $1.164 against the **dollar,** down from a high of $1.36 at the end of last year.

America's merchandise trade deficit widened to a record $71.1 billion in September, lifting the 12-month gap to $753 billion. The sharp increase reflected a 4% fall in exports due to a strike at Boeing and the closure of Gulf coast ports after Hurricane Katrina. However, foreigners' appetite for financing the trade gap remains strong: net flows of foreign capital into American assets rose to a record $102 billion in September.

The 12-month rate of **consumer-price inflation** fell to 4.3% in America in October, from 4.7% in September. Energy prices declined by a less-than-expected 0.2%, as lower petrol prices were offset by increases in the cost of natural gas and electricity. Core consumer prices (excluding food and energy) rose by 0.2%—the biggest monthly gain for seven months—lifting the 12-month rate to 2.1%. Ten-year bond yields fell back below 4.5%, reducing the spread over two-year bonds to a five-year low of only 9 basis points.

Final figures confirmed that the average inflation rate in the euro area eased to 2.5% in October, from 2.6% in September. The core rate of inflation held steady at 1.5%.

Japan's GDP grew by an annual rate of 1.7% in the third quarter, to give growth of 3% over a year ago. Domestic demand accounted for more than the whole of the increase; net exports were a drag on growth. Japanese bank lending rose for the third consecutive month (compared with a year ago), following more than seven years of decline.

In October, **Britain's** inflation rate fell for the first time in a year, to 2.3%. Its jobs market continues to weaken, with the claimant-count measure of unemployment rising in October for the ninth successive month. The internationally comparable ILO measure of unemployment remained at 4.7%. Job vacancies fell to their lowest level in nearly two years.

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Output, demand and jobs

Nov 17th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.6	Q2	+ 5.2	+ 2.7	+ 3.3	+ 0.7	Q2	+ 1.2	Q3	5.2	Oct	5.3
Austria	+ 2.1	Q2	+ 1.8	+ 1.6	+ 1.9	+ 4.4	Aug	+ 6.5	Aug	5.3	Oct	4.9
Belgium	+ 1.1	Q3	+ 1.6	+ 1.3	+ 1.8	– 3.9	Sep	+ 7.4	Aug	13.2	Oct†	13.2
Britain	+ 1.6	Q3	+ 1.6	+ 1.8	+ 2.1	– 1.1	Sep	+ 1.5	Oct	4.7	Sep††	4.7
Canada	+ 2.7	Q2	+ 3.2	+ 2.9	+ 3.0	+ 1.7	Aug	+ 4.9	Aug	6.6	Oct	7.1
Denmark	+ 4.3	Q2	+ 6.6	+ 2.2	+ 2.2	+ 2.0	Sep	+ 8.4	Sep	5.5	Sep	6.3
France	+ 1.9	Q3	+ 2.8	+ 1.5	+ 1.7	+ 0.2	Sep	+ 2.6	Sep	9.8	Sep	10.0
Germany	+ 1.4	Q3	+ 2.5	+ 0.9	+ 1.3	+ 3.3	Sep	– 0.7	Sep	11.6	Oct§	10.7
Italy	nil	Q3	+ 1.2	+ 0.2	+ 1.2	– 1.7	Sep	+ 1.1	Aug	7.7	Jun	8.1
Japan	+ 3.0	Q3	+ 1.7	+ 2.3	+ 2.0	+ 1.2	Sep	+ 0.4	Sep	4.2	Sep	4.6
Netherlands	+ 0.9	Q3	+ 1.3	+ 0.7	+ 1.7	+ 1.6	Sep	+ 1.9	Aug	6.5	Oct**	6.5
Spain	+ 3.2	Q3	+ 3.5	+ 3.4	+ 3.0	+ 0.5	Sep	+ 1.9	Sep	9.3	Sep	10.8
Sweden	+ 2.3	Q2	+ 2.6	+ 2.3	+ 2.8	nil	Sep	+ 6.5	Sep	5.6	Oct†	4.9
Switzerland	+ 1.0	Q2	+ 1.1	+ 1.1	+ 1.6	+ 3.9	Q2	+ 4.7	Aug	3.7	Oct†	3.7
United States	+ 3.6	Q3	+ 3.8	+ 3.6	+ 3.3	+ 2.0	Sep	+ 2.6	Sep	5.0	Oct	5.5
Euro area	+ 1.5	Q3	+ 2.6	+ 1.3	+ 1.6	+ 2.6	Aug	+ 0.9	Sep	8.4	Sep	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.7	Q3	+ 7.8	na	na	– 0.8	Sep	+ 5.8	Aug	8.3	Sep	8.4
Greece	+ 3.7	Q3	na	na	na	+ 0.1	Sep	+ 3.9	Aug	9.9	Mar	10.8
Iceland	+ 6.8	Q2	na	na	na	na		na		1.4	Sep†	2.6
Ireland	+ 4.1	Q2	+ 6.5	na	na	+ 0.4	Sep	+ 4.2	Aug	4.4	Oct	4.4
Luxembourg	+ 3.1	Q1	na	na	na	+15.8	Aug	+ 1.2	Sep	4.7	Sep	4.2
New Zealand	+ 2.6	Q2	+ 4.5	na	na	– 1.5	Q2	+ 4.9	Q3	3.4	Q3	3.8
Norway	+ 4.8	Q2	+ 5.2	na	na	+ 5.0	Sep	+ 4.2	Sep	4.8	Sep‡	4.5
Portugal	+ 0.5	Q2	+ 4.1	na	na	+ 0.1	Sep	+ 2.5	Sep	7.2	Q2†	6.3

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Jul-Sep; claimant count rate 2.8% in Oct.
§EU harmonised rate 8.7% in Sep. **Aug-Oct.

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Prices and wages

Nov 17th 2005
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2005	2006	latest		year ago	latest		year ago
Australia	+ 3.0	Q3	+ 2.3	+ 2.8	+ 2.7	+ 6.2	Q3	+ 6.1	+ 5.8	Q2	+ 3.0
Austria	+ 2.0	Oct	+ 2.6	+ 2.2	+ 2.0	+ 1.3	Oct	+ 6.0	+ 2.3	Oct	+ 2.0
Belgium	+ 2.5	Oct	+ 2.9	+ 2.5	+ 2.2	+ 1.5	Sep	+ 6.0	+ 2.5	Jul	+ 2.2
Britain	+ 2.3	Oct*	+ 1.2	+ 2.2	+ 2.2	+ 2.6	Oct	+ 3.5	+ 4.1	Sep†	+ 3.8
Canada	+ 3.4	Sep	+ 1.8	+ 2.4	+ 2.5	+ 0.6	Sep	+ 4.8	+ 1.1	Aug	+ 2.0
Denmark	+ 2.0	Oct	+ 1.7	+ 1.8	+ 1.9	+ 4.3	Oct	+ 3.6	+ 2.9	Q2	+ 3.1
France	+ 1.8	Oct	+ 2.1	+ 1.9	+ 1.7	+ 3.4	Sep	+ 3.0	+ 2.9	Q2	+ 2.8
Germany	+ 2.3	Oct	+ 2.0	+ 2.0	+ 1.9	+ 2.7	Oct	+ 4.2	+ 0.9	Aug	+ 1.6
Italy	+ 2.2	Oct	+ 2.0	+ 2.1	+ 2.1	+ 3.8	Sep	+ 3.8	+ 3.1	Sep	+ 2.5
Japan	− 0.3	Sep	nil	− 0.1	+ 0.3	+ 1.9	Oct	+ 2.1	− 0.2	Sep	+ 1.6
Netherlands	+ 1.6	Oct	+ 1.4	+ 1.5	na	+ 5.3	Sep	+ 6.1	+ 1.0	Oct	+ 0.9
Spain	+ 3.5	Oct	+ 3.6	+ 3.3	+ 3.1	+ 5.4	Sep	+ 4.6	+ 3.4	Q2	+ 3.1
Sweden	+ 0.5	Oct	+ 0.8	+ 0.8	+ 1.5	+ 4.2	Sep	+ 2.1	+ 3.0	Aug	+ 2.6
Switzerland	+ 1.3	Oct	+ 1.3	+ 1.3	+ 1.2	+ 1.5	Sep	+ 1.5	+ 0.9	2004	+ 1.4
United States	+ 4.3	Oct	+ 3.2	+ 3.4	+ 3.1	+ 5.9	Oct	+ 4.4	+ 2.9	Oct	+ 2.6
Euro area	+ 2.5	Oct	+ 2.4	+ 2.2	+ 1.9	+ 4.4	Sep	+ 3.3	+ 2.3	Q2	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.8	Oct	+ 0.9	na	na	+ 3.8	Sep	+ 2.5	+ 3.6	Q3	+ 4.0
Greece	+ 3.8	Oct	+ 3.2	na	na	+ 6.7	Sep	+ 4.9	na		na
Iceland	+ 4.2	Nov	+ 3.8	na	na	+ 4.2	Oct	+ 5.6	+ 6.9	Sep	+ 5.3
Ireland	+ 3.0	Oct	+ 2.7	na	na	− 0.2	Sep	− 0.8	+ 3.4	Q2	+ 4.3
Luxembourg	+ 3.1	Oct	+ 2.5	na	na	+ 4.1	Aug	+11.3	+ 1.2	Aug	+ 2.3
New Zealand	+ 3.4	Q3	+ 2.5	na	na	+ 4.7	Q2	+ 1.5	+ 3.0	Q3	+ 2.2
Norway	+ 1.8	Oct	+ 1.4	na	na	+10.1	Oct	+24.1	+ 3.8	Q2	+ 4.1
Portugal	+ 2.7	Oct	+ 2.1	na	na	+ 4.5	Sep	+ 4.5	− 1.4	Sep	− 0.8

*RPI inflation rate 2.5% in Oct. †Jul-Sep.

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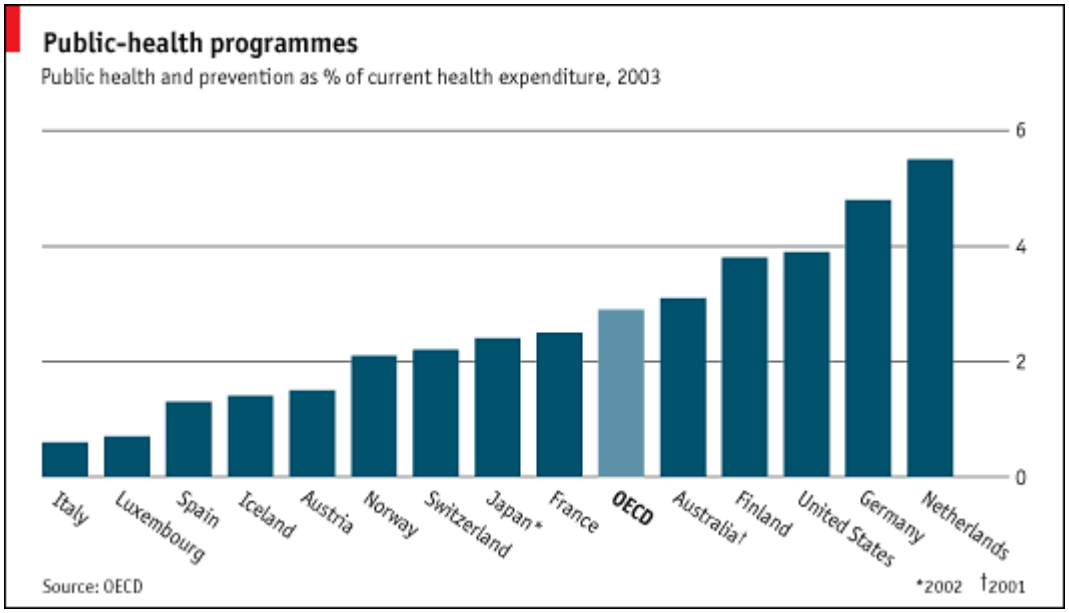
Public-health programmes

Nov 17th 2005
From The Economist print edition



Since the late 1990s, average health spending in rich countries has risen in real terms at double the rate of economic growth. Since public money generally predominates in the financing of health care, this is straining government budgets. Yet public-health and prevention programmes, which are especially cost-effective, account on average for only 3% of current health-care spending.

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Money and interest rates

Nov 17th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Nov 16th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 7.6	+ 9.8	Sep	5.63	5.43	5.25	5.44	5.49	6.47
Britain	+ 5.2	+11.2	Sep	4.58	4.81	4.27	4.16	4.65	5.16
Canada	+10.9	+ 9.8	Sep	3.23	2.69	3.71	4.09	4.45	5.35
Denmark	+22.8	+16.3	Sep	2.35	2.25	2.74	3.39	3.81	4.96
Japan	+ 5.4	+ 2.0	Oct	0.02	0.02	0.26	1.51	1.48	1.55
Sweden	+ 2.8	+ 5.6	Sep	1.50	2.01	2.31	3.31	4.04	3.17
Switzerland	+ 4.0	+ 6.2	Oct	0.95	0.77	1.59	2.17	2.37	2.31
United States	+ 0.5	+ 7.3	Oct	4.21	2.19	4.41	4.50	4.14	5.42
Euro area†	+11.2	+ 8.5	Sep	2.35	2.17	2.61	3.39	3.73	3.81

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.67%, Japan No. 273 1.50%. Central bank rates: US fed funds 4.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 17th 2005
From The Economist print edition

2000=100

	Nov 8th	Nov 15th*	% change on one month	% change on one year
Dollar index				
All items	134.9	136.4	+ 0.1	+10.3
Food	123.0	123.0	– 1.5	+ 5.5
Industrials				
All	150.3	153.8	+ 1.7	+15.7
Nfa†	132.4	132.7	– 2.4	+ 8.9
Metals	160.1	165.3	+ 3.6	+19.0
Sterling index				
All items	117.6	119.4	+ 0.9	+17.9
Euro index				
All items	106.1	108.0	+ 2.2	+22.6
Yen index				
All items	146.8	150.8	+ 2.9	+24.7
Gold				
$ per oz	461.45	468.05	– 0.9	+ 6.4
West Texas Intermediate				
$ per barrel	59.57	57.68	– 8.5	+25.2

* Provisional. † Non-food agriculturals.

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Stockmarkets

Nov 17th 2005
From The Economist print edition

Market indices

	Nov 16th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,560.2	4,617.4	3,905.5	+ 1.9	- 1.2	+12.5	+ 4.7
Austria (ATX)	3,349.3	3,503.9	2,415.0	+ 0.7	- 4.4	+37.8	+18.2
Belgium (Bel 20)	3,363.7	3,390.5	2,958.8	+ 0.8	- 8.6	+14.7	- 1.6
Britain (FTSE 100)	5,430.0	5,501.6	4,783.6	- 0.2	-21.6	+12.8	+ 0.8
Canada (Toronto Composite)	10,727.0	11,081.2	9,006.2	+ 0.7	- 5.8	+16.0	+16.6
Denmark (OMXCB)	341.4	342.3	257.8	+ 0.8	- 0.3	+32.4	+13.3
France (SBF 250)	3,146.6	3,248.3	2,633.6	+ 0.7	-28.3	+19.5	+ 2.5
(CAC 40)	4,512.1	4,650.2	3,816.1	+ 0.7	-34.8	+18.1	+ 1.3
Germany (DAX)*	5,081.5	5,138.0	4,178.1	+ 1.4	-37.0	+19.4	+ 2.4
Italy (S&P/MIB)	33,684.0	34,874.0	30,645.0	+ 0.8	-32.8	+ 9.0	- 6.5
Japan (Nikkei 225)	14,170.9	14,170.9	10,825.4	+ 0.7	-63.6	+23.3	+ 5.9
(Topix)	1,486.3	1,499.1	1,109.2	- 0.1	-48.5	+29.3	+11.0
Netherlands (AEX)	410.8	412.6	347.0	+ 1.7	-41.4	+18.0	+ 1.2
Spain (Madrid SE)	1,120.7	1,176.9	950.9	- 0.6	- 4.8	+16.9	+ 0.3
Sweden (Affarsvarlden Gen)	275.4	275.7	218.9	+ 1.2	-31.2	+24.5	+ 0.3
Switzerland (Swiss Market)	7,268.5	7,351.3	5,669.6	+ 0.4	-13.6	+27.7	+ 9.5
United States (DJIA)	10,674.8	10,940.6	10,012.4	+ 1.2	- 8.9	- 1.0	- 1.0
(S&P 500)	1,231.2	1,245.0	1,137.5	+ 0.9	-19.4	+ 1.6	+ 1.6
(NASDAQ Comp)	2,187.9	2,218.2	1,904.2	+ 0.6	-56.7	+ 0.6	+ 0.6
Europe (FTSEurofirst 300)†	1,225.1	1,242.0	1,038.6	nil	-28.1	+17.6	+ 0.9
Euro area (FTSE Euro 100)†	1,032.8	1,056.1	894.4	+ 0.9	-33.4	+14.6	- 1.6
World (MSCI)‡	1,208.0	1,225.6	1,115.0	+ 0.2	-16.6	+ 3.3	+ 3.3
World bond market (Citigroup)††	609.6	662.3	608.7	- 0.2	- 8.0	- 8.5	- 8.5

*Total return index. †In euro terms. ‡Morgan Stanley Capital International Index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Nov 17th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2005	Current-account balance The Economist poll % of GDP, forecast 2006	Exchange rate trade-weighted† 2000=100 Nov 16th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Nov 16th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2005‡
Australia	− 16.1 Sep	− 43.1 Q2	− 4.7	− 5.3	117.2	116.1	1.37	1.28	2.35	1.60	1.15	+ 0.9
Austria	− 1.2 Aug	− 0.3 Aug	− 0.2	− 0.3	104.0§	104.1	0.86	0.77	1.47	–	0.72	− 2.0
Belgium	+ 15.3 Sep	+ 9.2 Jun	+ 2.4	+ 2.4	104.5§	104.6	0.86	0.77	1.47	–	0.72	− 0.5
Britain	−116.7 Sep	− 43.6 Q2	− 2.2	− 2.4	98.3	98.4	0.58	0.54	–	0.68	0.49	− 2.9
Canada	+ 48.8 Sep	+ 16.3 Q2	+ 1.6	+ 1.5	122.3	119.9	1.19	1.19	2.05	1.39	1.00	+ 1.2
Denmark	+ 9.9 Aug	+ 11.0 Sep	+ 2.8	+ 2.5	105.9	106.5	6.39	5.71	11.0	7.46	5.36	+ 1.8
France	− 27.7 Sep	− 25.9 Aug	− 1.0	− 0.8	107.0§	107.2	0.86	0.77	1.47	–	0.72	− 3.0
Germany	+203.9 Sep	+113.6 Sep	+ 3.7	+ 3.5	104.8§	104.9	0.86	0.77	1.47	–	0.72	− 3.5
Italy	− 10.4 Sep	− 28.5 Aug	− 1.3	− 1.4	76.6§	76.7	0.86	0.77	1.47	–	0.72	− 4.4
Japan	+102.2 Sep	+111.1 Sep	+ 3.3	+ 3.3	81.6	89.3	119	104	205	139	–	− 6.1
Netherlands	+ 39.8 Sep	+ 44.3 Q3	+ 3.6	+ 3.6	103.9§	104.1	0.86	0.77	1.47	–	0.72	− 2.2
Spain	− 92.9 Aug	− 79.0 Aug	− 6.6	− 6.6	77.3§	77.3	0.86	0.77	1.47	–	0.72	+ 0.5
Sweden	+ 21.3 Sep	+ 27.9 Q2	+ 7.1	+ 6.5	92.8	101.2	8.25	6.89	14.1	9.62	6.91	+ 0.8
Switzerland	+ 7.2 Sep	+ 51.4 Q2	+12.3	+11.7	106.5	109.7	1.33	1.17	2.27	1.55	1.11	− 1.0
United States	−753.2 Sep	−749.7 Q2	− 6.5	− 6.6	88.9	81.3	–	–	1.72	1.17	0.84	− 4.1
Euro area	+ 49.4 Aug	+ 6.0 Aug	+ 0.1	+ 0.1	114.9	118.4	0.86	0.77	1.47	–	0.72	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 11.7 Sep	+ 8.0 Sep	na	na	81.5§	81.6	0.86	0.77	1.47	–	0.72	+ 1.3
Greece	− 33.8 Aug	− 16.2 Aug	na	na	59.9§	60.0	0.86	0.77	1.47	–	0.72	− 3.8
Iceland	− 1.3 Sep	− 1.6 Q2	na	na	106.7**	96.1	62.0	66.6	106	72.3	51.9	+ 1.1
Ireland	+ 40.3 Aug	− 3.9 Q2	na	na	94.2§	94.4	0.86	0.77	1.47	–	0.72	− 0.7
Luxembourg	− 4.4 Aug	+ 3.5 Q2	na	na	104.5§	104.6	0.86	0.77	1.47	–	0.72	− 0.8
New Zealand	− 4.1 Sep	− 8.2 Q2	na	na	139.6	132.9	1.46	1.41	2.50	1.70	1.22	+ 3.2
Norway	+ 45.9 Oct	+ 40.8 Q2	na	na	112.1	108.0	6.69	6.24	11.5	7.80	5.61	+ 14.4
Portugal	− 14.2 Aug	− 16.5 Aug	na	na	93.7**	93.6	0.86	0.77	1.47	–	0.72	− 5.3

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, September average. ‡OECD forecast. **IMF, July average.

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Central banks

Nov 17th 2005
From The Economist print edition

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Overview

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In **China**, industrial-production growth eased a little to 16.1% in the year to October. Inflation edged up to 1.2% over the same period. **India's** industrial-output growth dipped marginally to 7.3% in the year to September. The country's 12-month trade deficit rose in October to $36.5 billion.

Inflation rose in **Brazil** to 6.4% in the year to October. **Mexico's** industrial-production growth slackened to 1.0% in the 12 months to September. In **Peru**, it also slowed, though to 6.0% over the same period.

GDP growth in **Hungary** accelerated to 4.6% in the year to the third quarter. Industrial-output growth in the **Czech Republic** decelerated to 7.1% in the year to September.

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The Economist poll of forecasters

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From The Economist print edition

Every three months, *The Economist* polls a group of forecasters and averages their predictions for economic growth and current-account balances in 25 emerging economies. Compared with August, our seers have become more optimistic about this year's growth, raising their projections in 18 countries. China's economy is now expected to grow by 9.3% in 2005. However, growth forecasts for 2006 have been revised down in roughly as many countries as they have been increased.

November

	Real GDP % change		Current account % of GDP	
	2005	2006	2005	2006
China	9.3	8.2	6.4	5.2
Hong Kong	6.0	4.6	11.1	10.4
India	7.2	6.9	-1.2	-1.2
Indonesia	4.9	4.8	1.2	1.1
Malaysia	4.9	4.8	12.9	10.6
Philippines	4.6	4.5	3.3	3.2
Singapore	4.6	4.5	27.5	25.4
South Korea	3.7	4.2	2.4	1.7
Taiwan	3.3	3.8	4.2	4.2
Thailand	4.2	4.6	-0.5	-0.8
Argentina	7.6	4.6	1.7	0.6
Brazil	3.3	3.6	1.5	0.7
Chile	6.1	5.3	0.8	-0.0
Colombia	4.0	3.7	-1.1	-1.9
Mexico	3.0	3.3	-1.1	-1.7
Peru	5.6	4.4	0.5	-0.3
Venezuela	8.5	4.9	14.4	8.5
Egypt	4.7	5.0	3.6	2.2
Israel	4.7	4.2	0.5	0.2
South Africa	4.1	3.9	-3.6	-3.4
Czech Republic	4.4	4.2	-2.9	-3.0
Hungary	3.7	3.8	-7.9	-7.7
Poland	3.3	4.3	-0.8	-1.6
Russia	6.0	6.1	12.5	9.7
Turkey	4.9	4.6	-6.1	-5.5

Sources: ABN Amro; Deutsche Bank; Economist Intelligence Unit; Goldman Sachs; HSBC; ING Financial Markets; J.P. Morgan Chase; Merrill Lynch; UBS.

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Economy

Nov 17th 2005
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.4	Q3	+16.1	Oct	+ 1.2	Oct	+101.5	Oct	+68.7	2004	769.0	Sep
Hong Kong	+ 6.8	Q2	– 0.1	Q2	+ 1.6	Sep	– 9.5	Sep	+21.3	Q2	121.9	Oct
India	+ 8.1	Q2	+ 7.3	Sep	+ 3.6	Sep	–36.5	Oct	–16.0	Q2	137.6	Oct
Indonesia	+ 5.5	Q2	+ 7.4	Aug	+17.9	Oct	+26.7	Sep	+ 4.0	Q2	30.2	Sep
Malaysia	+ 4.1	Q2	+ 4.9	Sep	+ 3.3	Oct	+24.4	Sep	+18.0	Q2	79.7	Sep
Philippines	+ 4.8	Q2	+ 7.3	Aug	+ 7.0	Oct	– 1.3	Aug	+ 3.2	Jun	15.6	Oct
Singapore	+ 6.0	Q3	+21.1	Sep	+ 0.6	Sep	+16.8	Sep	+32.5	Q2	115.6	Oct
South Korea	+ 4.4	Q3	+ 7.2	Sep	+ 2.5	Oct	+25.8	Oct	+18.6	Sep	206.7	Sep
Taiwan	+ 4.4	Q3	+ 6.2	Sep	+ 2.6	Oct	+ 2.9	Oct	+13.3	Q2	252.0	Oct
Thailand	+ 4.4	Q2	+ 4.8	Sep	+ 6.2	Oct	– 6.9	Sep	– 2.0	Sep	48.5	Sep
Argentina	+10.1	Q2	+ 6.8	Sep	+10.7	Oct	+11.4	Sep	+ 2.9	Q2	24.8	Sep
Brazil	+ 3.9	Q2	+ 0.2	Sep	+ 6.4	Oct	+41.9	Oct	+13.1	Sep	56.5	Sep
Chile	+ 6.5	Q2	+ 5.8	Sep	+ 4.1	Oct	+ 8.7	Oct	+ 0.6	Q2	15.0	Oct
Colombia	+ 5.3	Q2	+ 5.7	Aug	+ 5.3	Oct	+ 1.6	Aug	– 0.8	Q2	14.1	Oct
Mexico	+ 3.3	Q3	+ 1.0	Sep	+ 3.1	Oct	– 9.4	Sep	– 8.4	Q2	69.9	Sep
Peru	+ 5.7	Sep	+ 6.0	Sep	+ 1.3	Oct	+ 4.1	Aug	+ 0.4	Q2	12.7	Oct
Venezuela	+11.1	Q2	+12.4	Sep	+16.0	Oct	+24.7	Q2	+17.7	Q2	26.4	Aug
Egypt	+ 5.2	Q1	+ 3.3	2004†	+ 3.7	Sep	–10.4	Q2	+ 2.9	Q2	19.8	Sep
Israel	+ 4.8	Q2	+ 3.9	Aug	+ 2.7	Oct	– 8.3	Sep	+ 1.3	Q2	28.4	Oct
South Africa	+ 4.5	Q2	+ 3.5	Aug	+ 4.4	Sep	– 3.0	Sep	– 8.6	Q2	17.8	Oct
Czech Republic	+ 5.1	Q2	+ 7.1	Sep	+ 2.6	Oct	+ 1.5	Sep	– 4.1	Q2	29.4	Oct
Hungary	+ 4.6	Q3	+ 8.9	Sep	+ 3.2	Oct	– 3.4	Sep	– 8.6	Q2	17.5	Oct
Poland	+ 2.8	Q2	+ 5.5	Sep	+ 1.6	Oct	– 3.2	Sep	– 4.8	Sep	40.1	Oct
Russia	+ 6.1	Q2	+ 5.2	Sep	+11.8	Oct	+117.0	Sep	+78.3	Q2	161.2	Oct
Turkey	+ 4.2	Q2	+ 9.3	Sep	+ 7.5	Oct	–41.2	Sep	–21.4	Sep	41.8	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 9.9	Q2	+12.8	Sep	+ 4.5	Oct	– 2.4	Aug	– 1.4	Aug	1.7	Sep
Latvia	+11.6	Q2	+ 7.8	Sep	+ 7.6	Oct	– 2.8	Aug	– 1.7	Aug	2.3	Sep
Lithuania	+ 7.6	Q3	na		+ 2.9	Oct	– 3.2	Aug	– 1.5	Aug	3.6	Sep
Slovakia	+ 5.1	Q2	+ 5.4	Sep	+ 3.3	Oct	– 1.9	Aug	– 2.4	Jul	15.3	Sep
Slovenia	+ 5.2	Q2	+ 2.0	Sep	+ 3.1	Oct	– 1.4	Sep	+ 0.2	Aug	8.1	Aug
Pakistan	+ 8.4	2005†	+13.6	Apr	+ 8.3	Oct	– 8.3	Oct	– 1.5	Q2	10.2	Sep
Saudi Arabia	+ 6.2	2005	na		+ 0.4	Aug	+85.2	2004	+51.5	2004	23.2	Sep

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Financial markets

Nov 17th 2005
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 16th		Dec 31st 2004	
	Nov 16th	year ago	Nov 16th	% a year		one week	in local currency	in $ terms
China	8.80	8.28	15.1	2.20	1,152.0	-1.1	- 13.4	- 18.6
Hong Kong	7.76	7.77	13.3	4.20	14,650.5	+0.4	+ 3.0	+ 3.2
India	45.7	45.0	78.4	5.80	8,595.9	+3.5	+ 30.2	+ 23.7
Indonesia	10,010	9,003	17,167	14.45	1,025.8	-2.6	+ 2.6	- 4.9
Malaysia	3.78	3.80	6.48	2.93	896.8	-1.1	- 1.2	- 0.6
Philippines	54.7	56.3	93.8	7.63	2,060.8	-1.7	+ 13.1	+ 16.0
Singapore	1.70	1.65	2.92	3.00	2,254.5	-0.7	+ 9.1	+ 4.6
South Korea	1,038	1,079	1,779	3.95	1,267.2	+3.2	+ 41.4	+ 41.1
Taiwan	33.6	32.6	57.7	1.55	6,046.2	+1.3	- 1.5	- 7.2
Thailand	41.2	40.2	70.6	4.35	675.3	-3.1	+ 1.1	- 4.6
Argentina	2.95	2.94	5.05	7.38	1,584.6	-0.5	+ 15.2	+ 16.2
Brazil	2.20	2.76	3.78	19.03	30,482.0	-0.6	+ 16.4	+ 40.2
Chile	525	588	901	4.92	9,518.8	+0.6	+ 6.2	+ 12.4
Colombia	2,279	2,523	3,908	6.45	8,058.2	+4.0	+ 85.4	+ 91.4
Mexico	10.6	11.3	18.2	8.68	16,310.7	+2.1	+ 26.3	+ 32.3
Peru	3.36	3.31	5.77	3.00	5,039.1	+1.2	+ 35.8	+ 32.5
Venezuela	2,726§	2,545§	4,674	14.39	20,025.8	-1.9	- 33.1	- 36.8
Egypt	5.76	6.24	9.88	9.23	50,389.8	-4.3	+105.0	+116.0
Israel	4.73	4.38	8.11	4.54	753.3	-3.6	+ 17.0	+ 6.8
South Africa	6.76	5.98	11.6	7.35	17,127.2	+1.8	+ 35.3	+ 12.8
Czech Republic	25.1	24.0	43.1	2.27	1,379.7	-2.6	+ 33.7	+ 18.7
Hungary	215	188	369	6.25	20,929.7	-0.2	+ 42.0	+ 19.3
Poland	3.41	3.26	5.86	4.65	33,001.5	-0.1	+ 23.9	+ 8.7
Russia	28.9	28.6	49.5	13.00	989.7‡	+1.0	+ 67.9	+ 61.2
Turkey	1.36	1.45	2.34	15.21	34,866.6	+3.0	+ 39.6	+ 38.2
EM (MSCI)*	1.00	1.00	1.72	na	648.7	+1.3	+ 19.6	+ 19.6
EMBI+†	1.00	1.00	1.72	na	359.3	+1.0	+ 9.0	+ 9.0

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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